

**Dihlabeng Local Municipality**

Annual Financial Statements for the year ended 30 June 2018



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**FINANCIAL STATEMENTS FOR  
THE YEAR ENDED 30 JUNE 2018**

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# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2018

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The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

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COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

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# Dihlabeng Local Municipality

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## GENERAL INFORMATION

### Members of the Executive Mayoral Committee:

Councillor L U Makhalema  
Councillor M A Mokoena  
Councillor M St V Mofokeng  
Councillor D B Michaels  
Councillor S M Jacobs  
Councillor J J H Pienaar

Councillor T J Tseki  
Councillor Ms M E Sempe

Councillor N E Mabizela

Chairperson  
MMC for community services  
MMC for public works and rural development  
MMC for corporate services  
MMC for human settlement  
MMC for local economic development and tourism  
MMC for finance  
MMC for IDP, performance management and monitoring  
MMC for women, children, disability and vulnerable groups

### Grade of Local Authority:

Grade 8

### Auditor:

Auditor-General South Africa

### Bankers:

ABSA Bank

Branch 502-233      Account number      4052898966

### Registered Office:

Civic centre	PO Box 551	Telephone:	058-303 5732
Muller street	Bethlehem	Fax:	058-303 5076
Bethlehem	9700		

### E-mail address:

info@dihlabeng.co.za

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Municipal Manager:

Mr Busa Molatseli

## Chief Financial Officer:

Mr Pule Khiba

## Members of the Dihlabeng Local Municipality

<u>Ward No:</u>	<u>Councillor</u>
1	Mr T I Mofokeng
2	Mr M M Twala
3	Mr D B Michaels
4	Mr M D Motaung
5	Mr T J Mbambo
6	Ms J Twala
7	Ms T M Mofokeng
8	Mr T M H Mofokeng
9	Mr B F Mokoena
10	Ms C J van Niekerk
11	Mr M D Shabalala
12	Mr J M Radebe
13	Mr T J Seekane
14	Mr T J Tseki
15	Ms M E Sempe
16	Mrs S M Jacobs
17	Mrs A L Rakhothule - Mkhwanazi
18	Mrs N E Mabizela
19	Mr M St V Mofokeng
20	Mr P D Lengoabala

## Public Representatives Councillors

Mrs L U Makhalema	Mr E M Maswili
Ms M A Maleka	Mrs M A Mokoena
Ms M E Lekhoa	Mrs H E Mokoena
Ms M F Mabuya	Mr E T Motloun
Mr G J Roetz	Ms N A Motaung
Mr P A Maasdorp	Mr J J Nhlapo
Mr M J Mokoena	Mr M K Mthombeni
Mr D L Xaba	Ms M V Oliphant



# Dihlabeng Local Municipality

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Ms M A Motaung

Mr A Wolmarans

## **Executive Mayor:**

Councillor L.U. Makhalema

## **Speaker:**

Councillor P.D. Lengoabala

## **Members of the Audit Committee:**

Ms V C Sikaundi	-	Chairperson
Mr. TD Tshikundu	-	Member
Mr. MD Motaung	-	Member

## **Nature of the entity**

The municipality is established in terms of Chapter 7 of the Constitution of the Republic of South Africa.

## **Relevant legislation**

Constitution of the Republic of South Africa

Municipal Finance Management Act (Act no 56 of 2003)

Division of Revenue Act (Act No 5 of 2012)

The Income Tax Act (Act No 28 of 1997)

Value Added Tax Act (Act No 89 of 1991)

Municipal Structures Act (Act no 117 of 1998)

Municipal Systems Act (Act no32 of 2000)

Municipal Planning and Performance Management Regulations

Water Services Act (Act no 108 of 1997)

Housing Act (Act no 107 of 1997)

Municipal Property Rates Act (Act no 6 of 2004)

Electricity Act (Act no 41 of 1987)

Skills Development Levies Act (Act no 9 of 1999)

Employment Equity Act (Act no 55 of 1998)

Unemployment Insurance Act (Act no 30 of 1966)

Basic Conditions of Employment Act (Act no 75 of 1997)

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Disaster Management Act (Act no 57 of 2002)

Municipal Electoral Act (Act no 27 of 2000)

Municipal Demarcation Act (Act no 27 of 1998)

Supply Chain Management Regulations, 2005

Collective Agreements

Infrastructure Grants

SALBC Leave Regulations

## **APPROVAL OF FINANCIAL STATEMENTS:**

I am responsible for the preparation of these annual financial statements, which are set out on pages 17 to 94 in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

I certify that the salaries, allowances and benefits of Councillors as disclosed in Note 29 and 30 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.



Municipal Manager

Busa Molatseli



Chief Financial Officer

Pule Khiba

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## ACCOUNTING OFFICER'S REPORT

### 1. INTRODUCTION

The 2017/18 financial year posed many challenges and obstacles which had to be addressed and accommodated by the limited financial and other resources.

The budget and the IDP are aligned with the vision and imperatives of national government, which are to address service delivery backlogs and the following strategic areas, were focussed on during the 2017/18 budget:

- The eradication of backlogs and investment in infrastructure for basic services and growth
- Economic growth and development that is shared and creates sustainable jobs
- Building safer, more secure and more sustainable communities
- The deepening of democracy
- Financial viability and management of resources
- A caring and effective government
- Institutional capacity and transformation

To budget for improved service delivery and then subsequently realising operational efficiency while it is also ensured that the deliverables are attained in a sustainable manner, has been a huge challenge during the 2017/18 financial year.

The challenge of addressing unlimited needs within the constraints of limited resources has necessitated a change in the way we do business to ensure that we stretch our resources to the maximum.

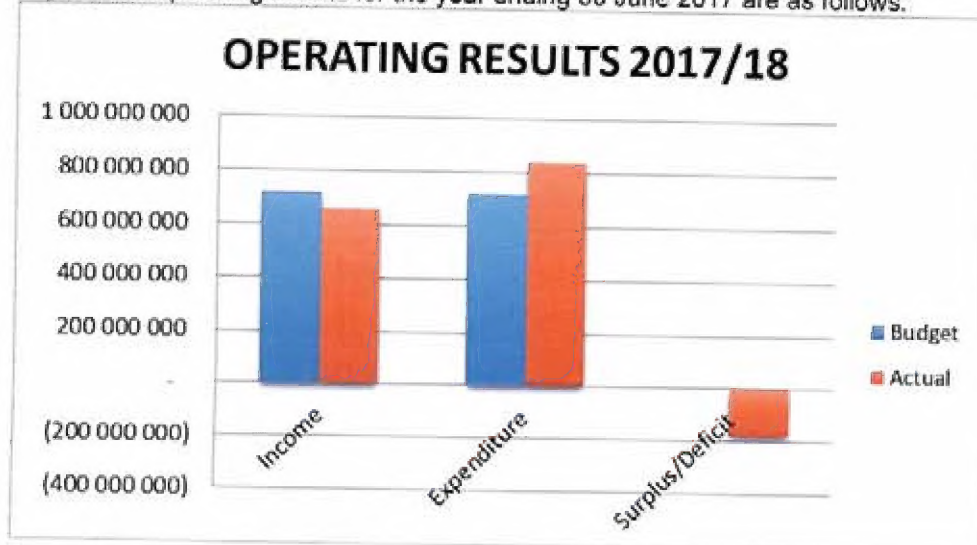
### 2. REVIEW OF OPERATING RESULTS

The 2017/18 budget of Dihlabeng Local Municipality was approved by Council in May 2017.

#### 2.1 General

Details of the 2017/18 operating results and classification of revenue and expenditure are included in the Statement of Financial Performance. A graphical presentation of the operating results is shown in the graph below:

The overall operating results for the year ending 30 June 2017 are as follows:



## Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2018

	Original Budget 2017	Adjusted	Actual 2017	Variance Actual / Adjusted budget	Actual 2017
Description	R'000	R'000	R'000	%	R'000
<b>REVENUE</b>					
Operating revenue for the year	698 216	719 442	659 913	-8,27%	687 596
	698 216	719 442	659 913		687 596
<b>EXPENDITURE</b>					
Operating expenditure for the year	690 216	719 442	838 462	16,54%	761 717
Fair value adjustment	-	-	114		76
Actuarial Gains / (loss)	-	-	(16 013)		-
Gain on disposal of assets			(3 486)		-
Accumulated surplus / (deficit)	8 000	-	299		-
	698 216	719 442	822 862		761 793

The actual net expenditure of the Municipality reflects an increase of 12.6% while the actual revenue of the Municipality has decreased by -4% in 2017/18

The largest decrease on revenue occurred on licenses and permits (19%), rendering of services (18%), other income (68%) and Government Grants (5%).

The largest increase on expenditure occurred on depreciation (44%), contracted services (46%) finance cost (27%).

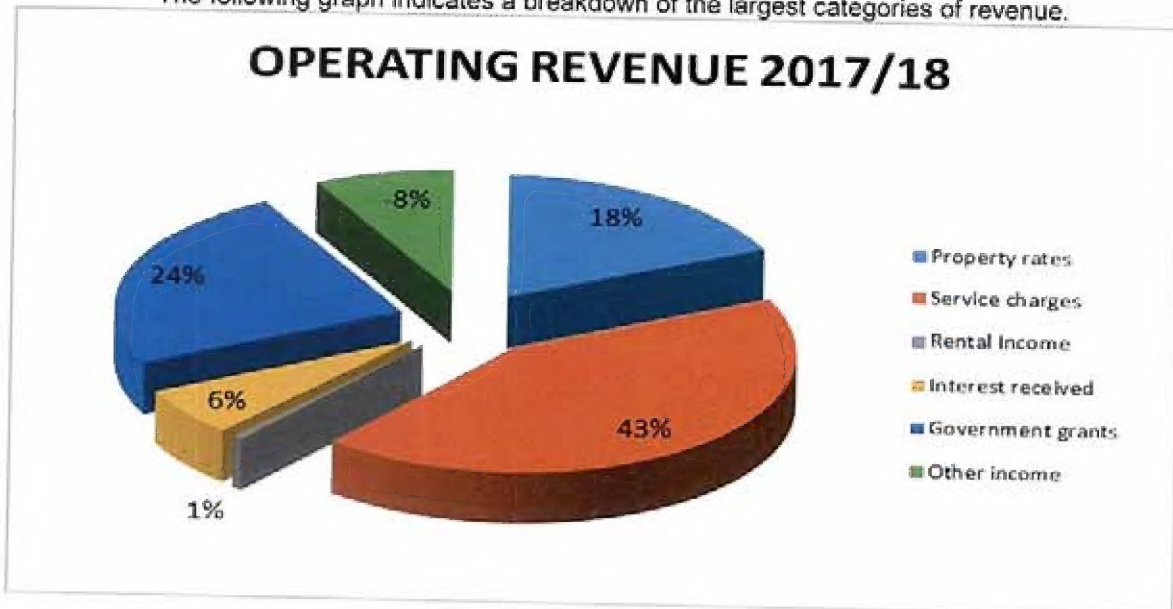


## Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2018

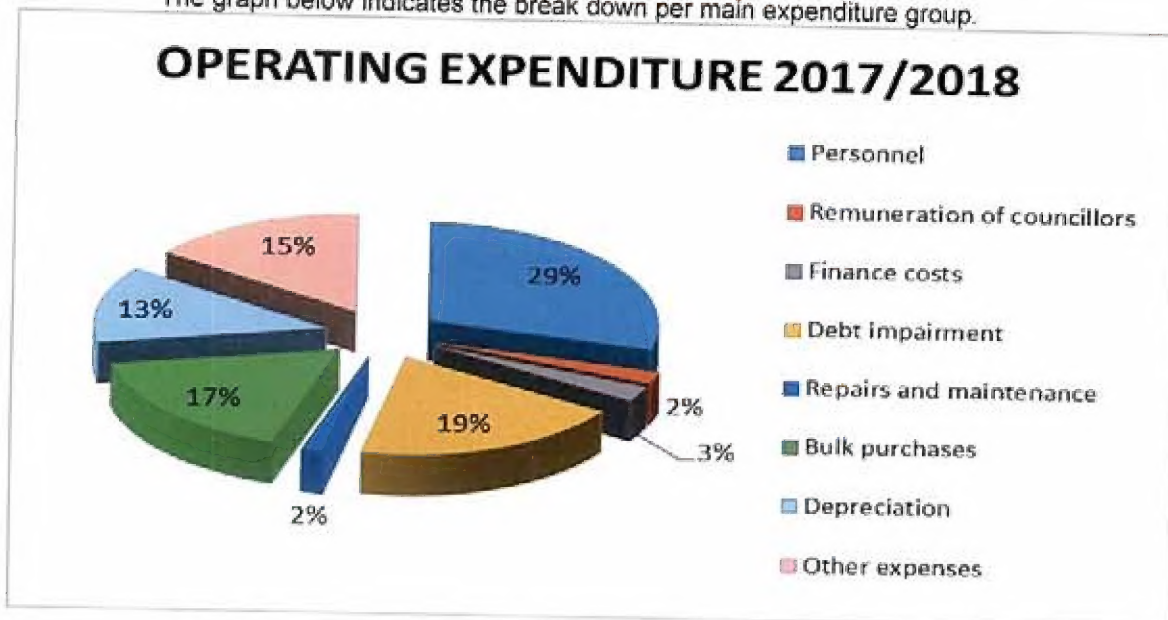
### 2.2 Operating Revenue

The following graph indicates a breakdown of the largest categories of revenue.



### 2.3 Operating expenditure

The graph below indicates the break down per main expenditure group.



## Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2018

### Remuneration

The actual expenditure on remuneration expressed as a percentage of the total expenditure shows an increase from 28% in 2016/17 to 29% in 2017/18. These figures have a large impact on the going concern capabilities of the municipality. The total remuneration cost and the allocation of individual items in a remuneration package differ from municipality to municipality for example; certain municipalities are more contract intensive whilst others might be more labour intensive. The target for remuneration as a percentage of expenditure is 30%.

Description	2017/18 R'000	2016/17 R'000
Total operating expenditure	838 462	761 717
Total operating revenue	659 913	687 596
Employee remuneration	240 143	212 385
Ratio: % of total expenditure	28,64%	27,88%
Ratio: % of total revenue	36,39%	30,89%
% in/decrease in remuneration	13,07%	15,43%



## Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2018

### Government grants and subsidies

The following table and graph show the amounts received in terms of grants, contributions and subsidies from the Central Government and the Free State Provincial Government, which have been included in the total revenue:

Description	2017/18	2016/17
Equitable share	124 304 000	125 216 000
DWA Grant	31 748 013	41 488 471
EPWP Grant	1 000 000	1 000 000
Grant Recurrent financial support	1 625 000	2 530 000
GOGTA Financial assistance	1 352 210	0
Library Grant	2 334 000	2 000 000
MIG	36 892 000	37 428 000
	199 255 223	209 662 471

### GOVERNMENT GRANTS & SUBSIDIES 2017/18





# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## 2.4 Operating statement analysis

The following difference occurred with regards to the operating results for the 2017/18 financial year. Please refer to pages 22 of the financial statements.

	Virements (i.t.o council approved policy)		Final Adjustment budget	Final budget	Actual outcomes	Unauthorized expenditure	Variances	Actual outcome as % of final budget	Reasons for variances
Property rates	147 203	-	147 203	140 553	-	-	-6 650	95%	within 10%
Services charges	382 843	-	382 843	336 963	-	-	-45 880	88%	Due to decrease in utilization of water and electricity.
Investment revenue	41 046	-	41 046	48 617	-	-	7 571	118%	within 10%
Transfers recognised – operational	134 964	-	134 964	130 615	-	-	-4 349	97%	within 10%
Other own revenue	13 386	-	13 386	3 165	-	-	-10 221	24%	Due to less revenue received than anticipated.
<b>Total Inc (Excl capital transfers and contributions)</b>	<b>719 442</b>	<b>-</b>	<b>719 442</b>	<b>659 913</b>	<b>-</b>	<b>-</b>	<b>-59 529</b>	<b>92%</b>	
Employees cost	232 333	-	232 333	240 143	7 810	-	-7 810	103%	within 10%
Remuneration of councillors	14 840	-	14 840	16 330	1 490	-	-1 490	110%	within 10%
Debt impairment	108 437	-	108 437	159 655	51 218	-	-51 218	147%	Underbudgeting for debt impairment.
Depreciation and asset impairment	74 101	-	74 101	105 420	31 319	-	-31 319	142%	Underbudgeting for depreciation impairment.
Finance charges	10 100	-	10 100	21 216	11 116	-	-11 116	210%	Due to cashflow problems, payments could not be made as required to Eskom and Hydro.
Materials and bulk purchases	150 948	-	150 948	142 515	-8 433	-	8 433	94%	within 10%

## Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Other expenditure	128 683	-	128 683	153 184	24 501	(24 501)	119%
<b>TOTAL EXP</b>	<b>719 442</b>	<b>-</b>	<b>719 442</b>	<b>838 462</b>	<b>119 020</b>	<b>-119 020</b>	<b>117%</b>

Due to high demand for rental of service delivery vehicles.

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## 2.5 Financial Position statement analysis

The following difference occurred with regards to the operating results for the 2017/18 financial year. Please refer to pages 18 to 23 of the financial statements.

Current assets	Approved budget	Adjustments	Final budget	Actual amounts	Variances	Actual outcome as % of final budget	Reasons for variances
Inventory	817 000,00	-	817 000,00	1 563 579,00	(746 579,00)	191%	included in budgeted costs for the year within 10%
Other financial assets	1 068 000,00	-	1 068 000,00	1 125 441,00	(57 441,00)	105%	
Receivables exchange transactions	-	-	-	12 412 900,00	(12 412 900,00)		
Receivables non-exchange transactions	-	-	-	2 547 248,00	(2 547 248,00)		
VAT	-	-	-	20 526 620,00	(20 526 620,00)		
Consumer debtors	100 907 000,00	-	100 907 000,00	98 494 724,00	42 412 276,00	100%	Under provision for doubtful debts
Cash	155 000,00	-	155 000,00	1 630 244,00	(1 475 244,00)	1052%	Improved cash on hand
<b>Non-Current assets</b>							
Biological assets	4 309 000,00	-	4 309 000,00	3 231 570,00	1 077 430,00	75%	decrease in market value
Investment Property	86 735 000,00	-	86 735 000,00	51 996 400,00	34 738 600,00	60%	Revaluation market value within 10%
Property, plant & equipment	2 079,943,000	956,018 000	3 035 961 000,00	1 789 568 971,00	1 246 392 029,00	59%	Upgrade in IT infrastructure
Intangible assets	79 000,00	-	79 000,00	1 686 129,00	(1 607 129,00)	2134%	Cash flow unavailability
Long term receivable	-	-	-	537 492,00	512 508,00	51%	
Other financial assets	1 050 000,00	-	512 508,00	(46 260 000,00)			
Heritage assets	-	-	46 260 000,00				
<b>Current liabilities</b>							
Other financial liabilities	3 736 000	-	3 975 000,00	4 821 107,00	(846 107,00)	121%	Under budgeting
Payables	236 805 000	-	274 807 000,00	402 400 572,00	(127 593 572,00)	146%	VAT were also included in the budget figures and slight improvement in payments
Consumer deposits	5 239 000	-	5 575 000,00	7 380 924,00	(1 805 924,00)	132%	Improved data cleansing and collections
Unspent conditional grant	-	-	-	-	-		
Provisions	-	-	2 791 521,00	(2 791 521,00)	2 791 521,00	108%	Included in non-current liabilities
Bank overdraft	21 473 000	-	-	-	-		
<b>Non-current liabilities</b>							
Other financial liabilities	49 835 000,00	-	49 835 000,00	34 791 545,00	15 043 455,00	70%	DBSA loans were restructured
Employee benefit obligation	43 438 000,00	-	43 438 000,00	21 981 000,00	21 457 000,00	51%	Over provision
Provisions							

## Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Long service awards	-	-	-	15 509 000,00	(15 509 000,00)
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## Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2018

### 3. DEBTORS

The following is an indication of the effectiveness of credit control measures, as well as the ability to convert debtors into cash:

Description	2017/18	2016/17
Consumer debtors	530 871 942	473 810 200
Balance on 1 July	649 856 887	627 375 389
Balance on 30 June	755 328 781	649 856 885
Average balance	702 592 834	638 616 137
Days in the financial year	365	365
Turnover: Number of days	483	492
Turnover: Number of times (levies/average balance)	0,76	0,74

From the table it is clear that, the number of days to recover increased from 492 to 483 since 2016/17. This high turnover has serious implications on the cash flow of the Municipality. A collection rate calculated on the total levies for a period compared to the total payments received during the same period is used to measure revenue recovery. The credit control by-law and the actions taken in terms of the by-law started producing better results. Measures have been put in place to recover the debts and the legal actions taken are starting to have an impact on the poor payment culture within our municipality. The increase in debtors has a serious impact on the going concern of the municipality.

### 4. CAPITAL EXPENDITURE AND FINANCING

The Municipality's original approved Capital Expenditure Budget for 2017/18 amounted to R69.6 million and was accepted by National Treasury.

Of these funds the MIG funding of R36.8 million was spent in the 2017/18 financial year and R31.7 million was spent from DWA funding.

#### Conclusion:

When comparing the actual expenditure to the budgeted expenditure the financing source of capital projects plays an important role. The funding from own sources can largely influence the following aspects:

- The raising of loans
- The cash flow of the Municipality

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## 5. ACCOUNTING RATIOS

### 5.1 Current asset ratio

This ratio mainly involves the financial resources used in the operating cycle of a local authority. Operating capital represents the surplus of current assets over current liabilities. This is a useful indicator when determining the ability to fund operating expenditure. This ratio measures the extent to which the current liabilities are covered by the current assets. A larger coverage means a lower risk since short-term debt can be paid out of short-term assets. The following table shows the calculation of the operating capital ratio:

Description	2017/18	2016/17
<b>CURRENT ASSETS:</b>		
Cash	1 530 244	181 119
Inventory	1 563 579	1 639 395
Consumer Debtors	50 321 576	53 288 804
Receivables from exchange transactions	12 412 900	17 958 034
Receivables from non exchange transactions	8 173 148	6 725 118
Other financial assets	1 125 441	1 055 083
Other receivables from exchange transactions	2 547 248	333 423
VAT Recievable	20 526 820	14 476 162
Total	98 300 756	95 657 118
<b>CURRENT LIABILITIES:</b>		
Creditors	402 400 572	335 252 562
Unspent conditional grants and reciepts	-	-
Other financial liabilities	4 821 107	4 163 573
Taxes and transfers payable	-	-
Consumer deposits	7 380 924	6 652 284
Overdrawn cash book balance	-	4 239 871
Total	414 602 603	350 308 290
Net Operating Capital	(316 301 847)	(254 651 172)
Current asset Ratio	0,27 : 1	0,36 : 1

The ratio decreased slightly since 2016/17. This is due to the fact that the current liabilities increased by 18% whilst the current assets increased with 3%. The impact in current assets can mainly be ascribed to the large provisions that had to be made towards debt impairment of R 159 million, which equates to R13.25 million per month, more than our bulk electricity purchases per month. The municipality has prioritised this fact of its business to ensure the sustainability of the municipality.

The private sector sets a ratio of 2:1 as being acceptable, however a norm for local government is currently not available.

## Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2018

### 5.2 Quick asset ratio (Acid test)

This ratio is a more accurate test of a local authority's ability to settle its short-term debt. When calculating this ratio, only assets that can be converted into cash are taken into account. Since material and stock are for the local authority's own use and are not for sale, they are not included in the calculations. The private sector sets a ratio of 1:1 as being acceptable. The figures that follow reflect the Municipality's quick asset ratio for the following years:

DESCRIPTION	2017/18	2016/17
Current assets	98 300 756	95 657 118
Less: Inventory	1 563 579	1 639 395
Total	96 737 177	94 017 723
Current liabilities	414 602 803	350 308 290
Quick asset ratio	0.27 : 1	0.36 : 1

The ratio decreased is due to increase in the current liabilities, serious attention will be required to increase the ratio even further in this area to ensure the going concern of the municipality.

### 5.3 Solvability

In this ratio, the total assets are compared to the total liabilities, and it shows the ability of the Municipality to meet its obligations in the long term. A ratio of less than one is an indication of insolvency. The following table shows the calculation of the solvency ratio:

DESCRIPTION	2017/18	2016/17
<b>TOTAL ASSETS:</b>		
Current assets	98 300 756	95 657 118
Non-current assets	1 893 280 562	1 958 185 356
Total	1 991 581 318	2 053 842 474
<b>TOTAL LIABILITIES:</b>		
Current liabilities	414 602 603	350 308 290
Plus: Long-term loans	34 791 545	37 245 635
Non-current provisions	2 791 521	2 812 117
Total	452 185 669	390 366 042
Solvability Ratio	5.27 : 1	6.51 : 1

The total assets of the Municipality remain more or less the same in the current financial year while the total liabilities increased with 16% resulting in a decrease in the solvability ratio as stated above. Non-current assets decreased with 3.31% while external loans decreased with 7%.



# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## 5.4 Total debt to total revenue ratio

According to credit rating companies, the benchmark for local government is a ratio of less than 50%. The ratio decreased from 6.64% to 6% since 2016/17. This decrease can be ascribed to the fact that the total debt decreased with 12% in relation to the increase of 1% in total revenue.

DESCRIPTION	2017/18	2016/17
Total debt	39 612 652	45 649 079
Total revenue	659 913 083	687 595 806
Ratio	6.00%	6.64%

## 5.5 Cashbook balance plus short-term loans to total operating revenue

DESCRIPTION	2017/18	2016/17
Short term debt	4 821 107	8 403 444
Total revenue	659 913 083	687 595 806
Ratio	0.73%	1.22%

According to credit rating companies, the benchmark is a ratio of less than 5%. The ratio increased due to an improvement in the negative cash book balance at the end of the financial year.

## 5.6 Cash to interest coverage

This ratio indicates to what extent a local authority can generate sufficient cash from its normal activities to cover its external interest liabilities. If the ratio is less than 1:1, it may indicate future cash flow problems. The ratio for the past two financial years is as follows:

DESCRIPTION	2017/18	2016/17
Cash generated from operations (Nett cash flow)	77 563 453	63 186 549
Interest paid on external loans	21 216 132	16 698 775
Ratio	4.64 : 1	3.70 : 1

The ratio shows an increase as the interest paid on external loans increased with 27% and the cash generated from operations shows a 23% increase since 2016/17.

## 5.7 Net debtors to total annual operating revenue

DESCRIPTIONS	2017/18	2016/17
Annual operating revenue	659 913 083	687 595 806
Debtors (excluding provision for bad debt)	755 328 781	649 856 885
Percentage	114.46%	94.51%

This ratio had an increase of 19.95%. This is a clear indication that the debt collection process of the municipality has problems and still needs to be improved even more.

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## 6. CHALLENGES EXPERIENCED DURING 2017/18

### 6.1 GOING CONCERN ISSUES

The going concern of the municipality remains an issue that management needs to address; the following areas are of concern:


- The government subsidies equate to 29% of our income. The situation improved by 1% from the 2016/17 financial year (i.e 30%). This means that there was a lesser reliance by the municipality on government grants.
- With reference to 5.2 (Quick asset ratio), the ratio of 0,27 : 1 is still a poor given the norm of 1: 1. The recoverability of our debtors still remains a problem hence the large provision for doubtful debts.
- Our overdrawn cash book balance plus short portion of long-term debt to operating revenue ratio (section 5.5 above) shows and decrease from 0.73% (2016/17) to 1.22% (2017/18).
- Although the personnel costs are within the norm of 35%. The ratio is still too high due to the impairment of debt and the municipality should make all possible efforts to reduce it to at least 28.64% excluding impairment of debt in the next financial year to ensure that the municipality is able to meet all its financial obligations. (Refer to 2.3 for more detail)
- As discussed above from the accounting officer's report and the submitted financial statements, the municipality is experiencing financial difficulties as current liabilities exceed current assets by R316 million, consumer debtors are not recovered timeously, inability to settle accounts payable within 30 days and a deficit of R128 million during the current year.
- These conditions, along with other matters as set out in the financial statements indicate the existence of a material uncertainty about the municipality's ability to operate as a going concern

### 6.2 IMPLEMENTATION OF ACCOUNTING STANDARDS

The Municipality had to comply with the accounting framework as set out in paragraph 1 of the Accounting policies as contained in the Annual Financial Statements of 2017/18. This accounting framework was determined in Directive 5 issued by the Accounting Standards Board on 31 March 2009.

## 7. APPRECIATION

I am grateful to the Executive Mayor, Members of the Mayoral Committee, Councillors, office of the Municipal Manager, CFO, Directors, Managers and Staff members. A special word of appreciation to everybody for the months of hard work, sacrifices and concentrated efforts during the financial year to enable my office to finalise and submit the annual financial statements within the prescribed period of 2 months after year end (i.e. 31 August).

  
\_\_\_\_\_  
BUSA MOLATSELE  
MUNICIPAL MANAGER

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Statement of Financial Position as at 30 June 2018

Figures in Rand	Note(s)	2018	2017 Restated*
<b>Assets</b>			
Current Assets			
Inventories	3	1,563,579	1,639,395
Other financial assets	4	1,125,441	1,055,063
Receivables from exchange transactions	5	12,412,900	17,958,034
Receivables from non-exchange transactions	6	2,547,248	333,423
VAT receivable	16	20,526,620	14,476,162
Trade receivables from exchange transactions	7	50,321,576	53,288,804
Trade receivable from non-exchange transactions	7	8,173,148	6,725,118
Cash and cash equivalents	8	1,630,244	181,119
		<b>98,300,756</b>	<b>95,657,118</b>
Non-Current Assets			
Biological assets that form part of an agricultural activity	9	3,231,570	2,932,610
Investment property	10	51,996,400	51,996,400
Property, plant and equipment	11	1,789,568,971	1,854,158,388
Intangible assets	12	1,686,129	2,343,924
Heritage assets	13	46,260,000	46,260,000
Other financial assets	4	537,492	494,034
		<b>1,893,280,562</b>	<b>1,958,185,356</b>
<b>Total Assets</b>		<b>1,991,581,318</b>	<b>2,053,842,474</b>
<b>Liabilities</b>			
Current Liabilities			
Other financial liabilities	14	4,821,107	4,163,573
Payables from exchange transactions	15	402,400,572	335,252,562
Consumer deposits	17	7,380,924	6,652,284
Bank overdraft	8	-	4,239,871
		<b>414,602,603</b>	<b>350,308,290</b>
Non-Current Liabilities			
Other financial liabilities	14	34,791,545	37,245,635
Employee benefit obligation	20	21,981,000	18,884,000
Provisions	19	2,791,521	2,812,117
Long service leave award	21	15,509,000	13,691,000
		<b>75,073,066</b>	<b>72,632,752</b>
<b>Total Liabilities</b>		<b>489,675,669</b>	<b>422,941,042</b>
<b>Net Assets</b>		<b>1,501,905,649</b>	<b>1,630,901,432</b>
Accumulated surplus		<b>1,501,905,649</b>	<b>1,630,901,432</b>

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Statement of Financial Performance

Figures in Rand

	Note(s)	2018	2017 Restated*
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Service charges	23	336,962,652	331,522,092
Rendering of services		1,519,825	1,853,341
Rental of facilities and equipment	24	4,739,178	4,466,819
Interest received (trading)		48,616,972	46,370,368
Licences and permits		55,639	69,041
Other income	25	2,917,946	9,131,636
Interest received - investment	26	274,960	-
Gain on disposal of assets and liabilities		-	447,271
Fair value adjustments on investments		114,019	76,146
Actuarial gains		-	1,926,000
Gain on biological asset		298,860	-
Dividends received	26	8,485	8,264
<b>Total revenue from exchange transactions</b>		<b>395,508,438</b>	<b>395,870,978</b>
<b>Revenue from non-exchange transactions</b>			
<b>Taxation revenue</b>			
Property rates	27	140,553,140	91,450,921
<b>Transfer revenue</b>			
Government grants and subsidies	28	191,693,517	199,255,223
Traffic fines		1,210,982	1,018,684
<b>Total revenue from non-exchange transactions</b>		<b>333,457,639</b>	<b>291,724,828</b>
<b>Total revenue</b>	22	<b>728,966,075</b>	<b>687,595,806</b>
<b>Expenditure</b>			
Employee costs	29	(240,142,695)	(212,384,802)
Remuneration of councillors	30	(16,329,665)	(13,440,618)
Depreciation, impairment and amortisation	31	(105,420,367)	(73,321,534)
Finance costs	32	(21,216,132)	(16,898,775)
Debt impairment	33	(159,654,806)	(128,418,419)
Bulk purchases	34	(142,514,736)	(152,294,859)
Contracted services	35	(3,670,634)	(2,521,517)
Loss on disposal of assets and liabilities		(16,013,476)	-
Actuarial losses		(3,486,000)	-
Loss on biological assets and agricultural produce		-	(207,515)
General expenses	36	(149,513,350)	(162,429,288)
<b>Total expenditure</b>		<b>(857,961,861)</b>	<b>(761,717,307)</b>
<b>Deficit for the year</b>		<b>(128,995,786)</b>	<b>(74,121,501)</b>

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	1,709,128,116	1,709,128,116
Adjustments		
Correction of errors - Note 45	(4,105,183)	(4,105,183)
<b>Balance at 01 July 2016 as restated*</b>	<b>1,705,022,933</b>	<b>1,705,022,933</b>
Changes in net assets		
Deficit for the year	(74,121,501)	(74,121,501)
Total changes	(74,121,501)	(74,121,501)
Opening balance as previously reported	1,635,006,618	1,635,006,618
Adjustments		
Correction of errors - Note 45	(4,105,183)	(4,105,183)
<b>Restated* Balance at 01 July 2017 as restated*</b>	<b>1,630,901,435</b>	<b>1,630,901,435</b>
Changes in net assets		
Deficit for the year	(128,995,786)	(128,995,786)
Total changes	(128,995,786)	(128,995,786)
<b>Balance at 30 June 2018</b>	<b>1,501,905,649</b>	<b>1,501,905,649</b>

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Cash Flow Statement

Figures in Rand

Note(s)	2018	2017 Restated*
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### Cash flows from operating activities

#### Receipts

Sale of goods and services	379,790,709	358,632,013
Grants	191,693,517	194,255,223
Interest income	2,258,086	6,439,295
Dividends received	8,485	8,264
	<u>573,748,797</u>	<u>559,334,795</u>

#### Payments

Employee costs	(256,472,360)	(223,710,231)
Suppliers	(232,384,317)	(244,292,454)
Finance costs	(21,216,132)	(16,698,775)
	<u>(510,072,809)</u>	<u>(484,701,460)</u>

Undefined difference compared to the cash generated from operations note

Net cash flows from operating activities	40	303	-
		<u>63,676,291</u>	<u>74,633,335</u>

### Cash flows from investing activities

Purchase of property, plant and equipment		(57,189,249)	(67,870,478)
Proceeds from sale of property, plant and equipment		998,511	658,963
Purchase of other intangible assets	12	-	(1,137,170)
Proceeds from sale of biological assets		-	196,648
Net cash flows from investing activities		(56,190,738)	(68,152,037)

### Cash flows from financing activities

Increase of other financial liabilities	(1,796,557)	(3,171,714)
Net cash flows from financing activities	(1,796,557)	(3,171,714)

Net increase/(decrease) in cash and cash equivalents

Cash and cash equivalents at the beginning of the year		5,688,996	3,309,584
		<u>(4,058,752)</u>	<u>(7,368,336)</u>

Cash and cash equivalents at the end of the year	8	<u>1,630,244</u>	<u>(4,058,752)</u>
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# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue from exchange transactions</b>						
Service charges	392,843,000	(10,000,000)	382,843,000	336,962,652	(45,880,348)	Note 54
Rendering of services	-	-	-	1,519,625	1,519,625	Note 54
Rental of facilities and equipment	2,008,000	-	2,008,000	4,739,178	2,731,178	Note 54
Interest received (trading)	41,046,000	-	41,046,000	48,616,972	7,570,972	Note 54
Licences and permits	54,000	-	54,000	55,639	1,639	Note 54
Other income	5,604,000	3,400,000	9,004,000	2,917,946	(6,086,054)	Note 54
Interest received - investment	-	250,000	250,000	274,960	24,960	
Dividends received	-	-	-	8,485	8,485	
<b>Total revenue from exchange transactions</b>	<b>441,555,000</b>	<b>(6,350,000)</b>	<b>435,205,000</b>	<b>395,095,457</b>	<b>(40,109,543)</b>	
<b>Revenue from non-exchange transactions</b>						
<b>Taxation revenue</b>						
Property rates	152,203,000	(5,000,000)	147,203,000	140,553,140	(6,649,860)	Note 54
<b>Transfer revenue</b>						
Government grants & subsidies - operational	136,329,000	(1,365,000)	134,964,000	123,053,504	(11,910,496)	Note 54
Fines, Penalties and Forfeits	2,070,000	-	2,070,000	1,210,982	(859,018)	Note 54
<b>Total revenue from non-exchange transactions</b>	<b>290,602,000</b>	<b>(6,365,000)</b>	<b>284,237,000</b>	<b>264,817,626</b>	<b>(19,419,374)</b>	
<b>Total revenue</b>	<b>732,157,000</b>	<b>(12,715,000)</b>	<b>719,442,000</b>	<b>659,913,083</b>	<b>(59,528,917)</b>	
<b>Expenditure</b>						
Personnel	(205,200,000)	(27,133,000)	(232,333,000)	(240,142,695)	(7,809,695)	Note 54
Remuneration of councillors	(13,040,000)	(1,800,000)	(14,840,000)	(16,329,665)	(1,489,665)	Note 54
Depreciation and amortisation	(83,101,000)	9,000,000	(74,101,000)	(105,420,367)	(31,319,367)	Note 54
Finance costs	(10,100,000)	-	(10,100,000)	(21,216,132)	(11,116,132)	Note 54
Debt Impairment	(113,469,000)	5,032,000	(108,437,000)	(159,654,806)	(51,217,806)	Note 54
Repairs and maintenance	(23,931,000)	-	(23,931,000)	(13,059,226)	10,871,774	Note 54
Bulk purchases	(165,948,000)	15,000,000	(150,948,000)	(142,514,736)	8,433,264	Note 54
Contracted Services	(25,526,000)	-	(25,526,000)	(3,670,634)	21,855,366	Note 54
General Expenses	(91,842,000)	12,616,000	(79,226,000)	(136,454,124)	(57,228,124)	Note 54
<b>Total expenditure</b>	<b>(732,157,000)</b>	<b>12,715,000</b>	<b>(719,442,000)</b>	<b>(838,462,385)</b>	<b>(119,020,385)</b>	
<b>Operating deficit</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(178,549,302)</b>	<b>(178,549,302)</b>	
Loss on disposal of assets and liabilities	-	-	-	(16,013,476)	(16,013,476)	Note 54
Fair value adjustments	-	-	-	114,019	114,019	Note 54
Actuarial gains/losses	-	-	-	(3,486,000)	(3,486,000)	
Gain on biological assets and agricultural produce	-	-	-	298,960	298,960	Note 54
<b>Deficit</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(19,086,497)</b>	<b>(19,086,497)</b>	
	<b>-</b>	<b>-</b>	<b>-</b>	<b>(197,635,799)</b>	<b>(197,635,799)</b>	



## Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2018

### Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Transfers recognised - capital	69,281,000	-	69,281,000	68,640,013	(640,987)	Note 54
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	69,281,000	-	69,281,000	(128,995,786)	(198,276,786)	

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Statement of Financial Position</b>						
<b>Assets</b>						
<b>Current Assets</b>						
Inventories	817,000	-	817,000	1,563,579	746,579	Note 54
Other financial assets	1,088,000	-	1,088,000	1,125,441	57,441	Note 54
Receivables from exchange transactions	-	-	-	12,412,900	12,412,900	Note 54
Receivables from non-exchange transactions	-	-	-	2,547,248	2,547,248	Note 54
VAT receivable	-	-	-	20,526,620	20,526,620	Note 54
Consumer debtors	100,907,000	-	100,907,000	58,494,724	(42,412,276)	Note 54
Cash and cash equivalents	155,000	-	155,000	1,630,244	1,475,244	Note 54
	<b>102,947,000</b>	<b>-</b>	<b>102,947,000</b>	<b>98,300,756</b>	<b>(4,646,244)</b>	
<b>Non-Current Assets</b>						
Biological assets that form part of an agricultural activity	4,309,000	-	4,309,000	3,231,570	(1,077,430)	Note 54
Investment property	86,735,000	-	86,735,000	51,996,400	(34,738,600)	Note 54
Property, plant and equipment	2,079,943,000	956,018,000	3,035,961,000	1,789,568,971	(1,246,392,029)	Note 54
Intangible assets	79,000	-	79,000	1,686,129	1,607,129	Note 54
Heritage assets	-	-	-	46,260,000	46,260,000	Note 54
Other financial assets	1,050,000	-	1,050,000	537,492	(512,508)	Note 54
	<b>2,172,116,000</b>	<b>956,018,000</b>	<b>3,128,134,000</b>	<b>1,893,280,562</b>	<b>(1,234,853,438)</b>	
<b>Total Assets</b>	<b>2,275,063,000</b>	<b>956,018,000</b>	<b>3,231,081,000</b>	<b>1,991,581,318</b>	<b>(1,239,499,682)</b>	
<b>Liabilities</b>						
<b>Current Liabilities</b>						
Other financial liabilities	3,975,000	-	3,975,000	4,821,107	846,107	Note 54
Payables from exchange transactions	274,807,000	-	274,807,000	402,400,573	127,593,573	Note 54
Consumer deposits	5,575,000	-	5,575,000	7,380,924	1,805,924	Note 54
	<b>284,357,000</b>	<b>-</b>	<b>284,357,000</b>	<b>414,602,604</b>	<b>130,245,604</b>	
<b>Non-Current Liabilities</b>						
Other financial liabilities	49,835,000	-	49,835,000	34,791,545	(15,043,455)	Note 54
Employee benefit obligation	43,438,000	-	43,438,000	21,981,000	(21,457,000)	Note 54
Provisions	-	-	-	2,791,521	2,791,521	Note 54
Long service leave award	-	-	-	15,509,000	15,509,000	Note 54
	<b>93,273,000</b>	<b>-</b>	<b>93,273,000</b>	<b>75,073,066</b>	<b>(18,199,934)</b>	
<b>Total Liabilities</b>	<b>377,630,000</b>	<b>-</b>	<b>377,630,000</b>	<b>489,675,670</b>	<b>112,045,670</b>	
<b>Net Assets</b>	<b>1,897,433,000</b>	<b>956,018,000</b>	<b>2,853,451,000</b>	<b>1,501,905,648</b>	<b>(1,351,545,352)</b>	
<b>Net Assets</b>						
<b>Net Assets Attributable to Owners of Controlling Entity</b>						
<b>Reserves</b>						
Accumulated surplus	1,897,433,000	956,018,000	2,853,451,000	1,501,905,649	(1,351,545,351)	Note 54

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand and is rounded to the nearest rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

#### 1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

#### 1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

#### 1.3 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

##### Trade receivables

The municipality assesses its trade receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the municipality makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

##### Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the end of the reporting period.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.3 Significant judgements and sources of estimation uncertainty (continued)

#### Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the useful life assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time.

#### Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 19 - Provisions.

#### Useful lives of waste and water network and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

#### Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 20.

#### Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

#### Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the expected recoverable amounts. The recoverable amount is calculated by dividing the consumer debtors into categories based on their payment history and the impairment is then done on the outstanding days at year-end.

### 1.4 Biological assets that form part of an agricultural activity

The entity recognises a biological assets that form part of an agricultural activity or agricultural produce when, and only when:

- the entity controls the asset as a result of past events;
- it is probable that future economic benefits or service potential associated with the asset will flow to the municipality; and
- the fair value or cost of the asset can be measured reliably.

Biological assets that form part of an agricultural activity are measured at their fair value less costs to sell.

## Accounting Policies

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### 1.4 Biological assets that form part of an agricultural activity (continued)

The fair value of livestock is determined based on market prices of livestock of similar age, breed, and genetic merit.

A gain or loss arising on initial recognition of biological assets that form part of an agricultural activity or agricultural produce at fair value less costs to sell and from a change in fair value less costs to sell of a biological assets that form part of an agricultural activity is included in surplus or deficit for the period in which it arises.

Where market determined prices or values are not available, the present value of the expected net cash inflows from the asset, discounted at a current market-determined pre-tax rate where applicable is used to determine fair value.

Where fair value cannot be measured reliably, biological assets are measured at cost less any accumulated depreciation and any accumulated impairment losses.

### 1.5 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

#### Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity measures that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The entity applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.



# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.6 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

### 1.6 Property, plant and equipment (continued)

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Community assets - Buildings	Straight line	5 - 50 years
Community assets - Land		Infinite
Furniture and fixtures	Straight line	5 - 22 years
Motor vehicles	Straight line	5 - 22 years
Infrastructure - Electrical	Straight line	5 - 50 years
Infrastructure - Roads	Straight line	7 - 80 years
Infrastructure - Sewer	Straight line	5 - 50 years
Infrastructure - Water	Straight line	5 - 100 years
Infrastructure - Solid waste - Land		Infinite
Infrastructure - Solid waste - Buildings	Straight line	5 - 50 years
Land owned		Infinite
Office equipment	Straight line	5 - 22 years
Plant and equipment	Straight line	2 - 37 years
Railways	Straight line	5 - 50 years
Other assets	Straight line	5 - 22 years

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.



# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.7 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software	x years

### 1.8 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality's operations that is shown as a single item for the purpose of disclosure in the annual financial statements.

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.8 Heritage assets (continued)

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

An inalienable item is an asset that an municipality is required by law or otherwise to retain indefinitely and cannot be disposed of without consent.

Recoverable amount is the higher of a cash-generating asset's net selling price and its value in use.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Value in use of a cash-generating asset is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Value in use of a non-cash-generating asset is the present value of the asset's remaining service potential.

### Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

### Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

### Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

If a heritage asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to a revaluation surplus. However, the increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit.

If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in surplus or deficit. However, the decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

### Impairment

The municipality assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.8 Heritage assets (continued)

#### Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

#### Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is included in surplus or deficit when the item is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

The gain or loss arising from the derecognition of a heritage asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

### 1.9 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).



# Dhlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.9 Financial instruments (continued)

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a residual interest in another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unutilised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;

## **Accounting Policies**

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### **1.9 Financial instruments (continued)**

- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

#### **Initial recognition**

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

#### **Initial measurement of financial assets and financial liabilities**

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity measures a financial asset and financial liability initially at its fair value (if subsequently measured at fair value).

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

#### **Subsequent measurement of financial assets and financial liabilities**

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

#### **Fair value measurement considerations**

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.



## **Accounting Policies**

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### **1.9 Financial instruments (continued)**

#### **Gains and losses**

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

#### **Derecognition**

##### **Financial assets**

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

## **Accounting Policies**

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### **1.9 Financial instruments (continued)**

#### **Financial liabilities**

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

#### **Consumer deposits**

Consumer deposits are subsequently recorded in accordance with the accounting policy of trade and other payables.

#### **Presentation**

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Distributions to holders of residual interests are recognised by the entity directly in net assets. Transaction costs incurred on residual interests are accounted for as a deduction from net assets. Income tax (where applicable) relating to distributions to holders of residual interests and to transaction costs incurred on residual interests are accounted for in accordance with the International Accounting Standard on Income Taxes.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

### **1.10 Leases**

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

## **Accounting Policies**

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### **1.10 Leases (continued)**

#### **Finance leases - lessee**

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

#### **Operating leases - lessor**

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

#### **Operating leases - lessee**

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

### **1.11 Inventories**

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for:

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.



## Accounting Policies

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### 1.11 Inventories (continued)

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

### 1.12 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets used with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

#### Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

#### Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

# Dihlabeng Local Municipality

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## Accounting Policies

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### 1.12 Impairment of cash-generating assets (continued)

#### Composition of estimates of future cash flows

Estimates of future cash flows include:

- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:

- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipality expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

#### Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

#### Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

#### Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

### 1.13 Impairment of non-cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.13 Impairment of non-cash-generating assets (continued)

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:

- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

#### Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

#### Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

#### Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the current reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

#### Restoration cost approach

Restoration cost is the cost of restoring the service potential of an asset to its pre-impaired level. The present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.13 Impairment of non-cash-generating assets (continued)

#### Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

#### Reversal of an impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

#### Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

## Accounting Policies

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### 1.14 Employee benefits

#### Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

#### Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

#### Multi-employer plans and/or State plans and/or Composite social security programmes

The entity classifies a multi-employer plan and/or state plans and/or composite social security programmes as a defined contribution plan or a defined benefit plan under the terms of the plan (including any constructive obligation that goes beyond the formal terms).

Where a plan is a defined contribution plan, the entity accounts for in the same way as for any other defined contribution plan.

Where a plan is a defined benefit plan, the entity account for its proportionate share of the defined benefit obligation, plan assets and cost associated with the plan in the same way as for any other defined benefit plan.

When sufficient information is not available to use defined benefit accounting for a plan, that is a defined benefit plan, the entity account for the plan as if it was a defined contribution plan.



## Accounting Policies

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### 1.14 Employee benefits (continued)

#### Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

#### Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

## Accounting Policies

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### 1.14 Employee benefits (continued)

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The entity measure the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

The entity determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the entity re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices)



## Accounting Policies

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### 1.14 Employee benefits (continued)

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

The entity offsets an asset relating to one plan against a liability relating to another plan when the entity has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

#### Other post retirement obligations

The municipality provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The municipality also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

### 1.15 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating surplus (deficit).

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

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### 1.15 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

### 1.16 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

### 1.17 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

#### Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

#### Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

# Dihlabeng Local Municipality

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### 1.17 Revenue from exchange transactions (continued)

#### Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

#### Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

### 1.18 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

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### 1.18 Revenue from non-exchange transactions (continued)

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

#### Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

#### Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

#### Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

### 1.19 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

### 1.20 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.



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Annual Financial Statements for the year ended 30 June 2018

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### 1.21 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

### 1.22 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.23 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.24 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was written off before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which approval is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only written off in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount written off.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

### 1.25 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a accrual basis and presented by functional classification linked to performance outcome objectives.

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.25 Budget information (continued)

The approved budget covers the fiscal period from 01/07/2017 to 30/06/2018.

The budget for the economic entity includes all the entities approved budgets under its control.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

### 1.26 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

Where the municipality is exempt from the disclosures in accordance with the above, the municipality discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity's financial statements to understand the effect of related party transactions on its annual financial statements.

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
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### 2. Summary of the standards and pronouncements comprising the GRAP reporting framework for the 30 June 2018 financial year-end

#### 2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2018 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 34: Separate Financial Statements	01 April 2009	Unlikely there will be a material impact
• GRAP 35: Consolidated Financial Statements	01 April 2009	Unlikely there will be a material impact
• GRAP 36: Investments in Associates and Joint Ventures	01 April 2009	Unlikely there will be a material impact
• GRAP 37: Joint Arrangements	01 April 2009	Unlikely there will be a material impact
• GRAP 38: Disclosure of Interests in Other Entities	01 April 2009	Unlikely there will be a material impact
• GRAP 110 (as amended 2016): Living and Non-living Resources	01 April 2020	Unlikely there will be a material impact
• GRAP 20: Related parties	01 April 2019	Unlikely there will be a material impact
• GRAP 32: Service Concession Arrangements: Grantor	01 April 2019	Unlikely there will be a material impact
• GRAP 108: Statutory Receivables	01 April 2019	Unlikely there will be a material impact
• GRAP 109: Accounting by Principals and Agents	01 April 2019	Unlikely there will be a material impact

#### 3. Inventories

Consumable stores	734,501	674,165
Water	118,262	105,999
Fuel (Diesel, Petrol)	645,004	628,737
Water chemicals	65,812	230,494
	<b>1,563,579</b>	<b>1,639,395</b>

#### 4. Other financial assets

##### Designated at fair value

Listed shares	292,122	270,151
4 169 shares in Sanlam @ R70.07 (2017: R64.80)		
Unlisted shares	245,370	223,663
8 662 shares in Oos Vrystaat Kaap Operations Ltd @ R14.90 (2017 : R13.20)		
9 016 shares in Oos Vrystaat Kaap Holdings Ltd @ R12.90 (2017 : R12.15)		
Sanlam short term deposit	969,165	898,787
The short term deposit at Sanlam is fixed and matures at a future date.		
ABSA short term deposit	156,276	156,276
The short term deposit at ABSA is fixed and matures at a future date.		
	<b>1,662,933</b>	<b>1,549,097</b>
<b>Total other financial assets</b>	<b>1,662,933</b>	<b>1,549,097</b>

##### Non-current assets

Designated at fair value	537,492	494,034
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##### Current assets

Designated at fair value	1,125,441	1,055,063
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## Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2018

### Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>5. Receivables from exchange transactions</b>		
Unbilled consumption to trade debtors	9,941,126	12,609,064
Pre-paid electricity from third party vendors	1,763,155	1,985,638
Sale of property debtors	708,619	3,363,332
Fraudulent payment under investigation	1,741,328	1,741,328
Impairment of fraudulent payments	(1,741,328)	(1,741,328)
	<b>12,412,900</b>	<b>17,958,034</b>
<b>6. Receivables from non-exchange transactions</b>		
Post office and petrol deposits	170,000	170,000
Other receivables from non-exchange revenue	2,256,680	42,855
Unpaid traffic fines	81,706,236	61,706,236
Provision for traffic fines not recoverable	(61,585,668)	(61,585,668)
	<b>2,547,248</b>	<b>333,423</b>

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>7. Trade receivables</b>		
<b>Gross balances</b>		
<b>Trade receivables from non-exchange transactions:</b>		
Rates	110,818,662	72,822,509
<b>Trade receivables from exchange transactions:</b>		
Electricity	28,901,917	28,379,234
Water	238,503,575	213,440,898
Sewerage	137,806,576	127,892,493
Refuse	193,365,268	179,420,594
Rentals, advertising and sundry charges	46,132,783	27,901,159
	<b>755,328,781</b>	<b>649,856,885</b>
<b>Less: Allowance for impairment</b>		
<b>Trade receivables from non-exchange transactions:</b>		
Rates	(102,445,514)	(66,097,391)
<b>Trade receivables from exchange transactions:</b>		
Electricity	(26,846,034)	(25,758,428)
Water	(219,887,649)	(193,729,747)
Sewerage	(127,050,356)	(116,081,692)
Refuse	(178,272,524)	(162,851,202)
Rentals, advertising and sundry charges	(42,531,980)	(25,324,503)
	<b>(696,834,057)</b>	<b>(589,842,963)</b>
<b>Net balance</b>		
<b>Trade receivables from non-exchange transactions:</b>		
Rates	8,173,148	6,725,118
<b>Trade receivables from exchange transactions:</b>		
Electricity	2,255,883	2,620,806
Water	18,615,926	19,711,149
Sewerage	10,756,220	11,810,801
Refuse	15,092,744	16,569,392
Rentals, advertising and sundry charges	3,800,803	2,576,656
	<b>58,494,724</b>	<b>60,013,922</b>
<b>Trade receivables from non-exchange transactions:</b>		
<b>Rates</b>		
Current (0 -30 days)	7,556,258	5,788,811
31 - 60 days	616,890	936,307
	<b>8,173,148</b>	<b>6,725,118</b>
<b>Trade receivables from exchange transactions:</b>		
<b>Electricity</b>		
Current (0 -30 days)	2,255,883	2,620,806
<b>Water</b>		
Current (0 -30 days)	7,896,349	5,862,971
31 - 60 days	5,639,045	3,580,260
61 - 90 days	5,237,590	3,270,412
91 - 120 days	42,942	3,124,705
121 - 365 days	-	3,872,801
	<b>18,615,926</b>	<b>19,711,149</b>

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

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### 7. Trade receivables (continued)

#### Sewerage

Current (0 -30 days)	4,652,935	3,774,766
31 - 60 days	3,290,156	2,416,568
61 - 90 days	2,813,129	2,144,222
91 - 120 days	-	1,913,769
121 - 365 days	-	1,561,476
	<b>10,756,220</b>	<b>11,810,801</b>

#### Refuse

Current (0 -30 days)	4,299,668	3,369,370
31 - 60 days	3,555,260	2,624,032
61 - 90 days	3,421,208	2,524,755
91 - 120 days	3,363,993	2,409,000
121 - 365 days	452,595	5,642,235
	<b>15,092,744</b>	<b>16,569,392</b>

#### Other (specify)

Current (0 -30 days)	851,467	558,155
31 - 60 days	480,634	2,018,501
61 - 90 days	538,942	-
91 - 120 days	448,057	-
121 - 365 days	1,281,703	-
	<b>3,600,803</b>	<b>2,576,656</b>

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand

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### 7. Trade receivables (continued)

#### Summary of trade receivables by customer classification

##### Consumers

##### Current (0 -30 days)

31 - 60 days

61 - 90 days

91 - 120 days

121 - 365 days

> 365 days

32,563,679 30,965,456

16,474,180 17,122,828

14,380,391 15,395,541

14,010,607 12,876,729

94,632,315 91,901,204

533,576,798 464,187,844

705,637,970 632,449,602

(696,834,057) (589,842,962)

8,803,913 42,606,640

Less: Allowance for impairment

##### National and provincial government

##### Current (0 -30 days)

31 - 60 days

61 - 90 days

91 - 120 days

121 - 365 days

> 365 days

4,476,033 2,975,366

2,393,029 1,880,539

1,780,077 1,352,516

1,143,019 724,551

31,300,844 3,845,698

8,597,808 6,628,614

49,690,810 17,407,284

##### Total

##### Current (0 -30 days)

31 - 60 days

61 - 90 days

91 - 120 days

121 - 365 days

> 365 days

37,039,712 33,940,822

18,867,209 19,003,367

16,160,468 18,748,057

15,153,626 13,801,280

125,933,159 95,746,901

542,174,607 470,816,458

755,328,781 649,856,885

(696,834,057) (589,842,963)

58,494,724 60,013,922

Less: Allowance for impairment

##### Less: Allowance for impairment

##### Current (0 -30 days)

31 - 60 days

61 - 90 days

91 - 120 days

121 - 365 days

> 365 days

(9,727,133) (13,721,882)

(5,285,224) (8,121,088)

(4,149,599) (8,255,560)

(11,298,634) (9,309,794)

(134,460,580) (86,246,995)

(531,912,887) (464,187,844)

(696,834,057) (589,842,963)

##### Total debtor past due but not impaired

##### Current (0 -30 days)

31 - 60 days

61 - 90 days

91 - 120 days

121 - 365 days

> 365 days

27,812,579 20,219,140

13,581,985 10,882,279

12,010,870 8,492,497

3,854,992 4,291,486

1,734,298 9,499,907

- 6,628,614

58,994,724 60,013,923

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand

### 7. Trade receivables (continued)

#### Reconciliation of allowance for impairment

Balance at beginning of the year	(589,842,963)	(586,411,512)
Contributions to allowance	(106,991,094)	(23,431,451)
	<b>(696,834,057)</b>	<b>(589,842,963)</b>

#### Consumer debtors impaired

As of 30 June 2018, consumer debtors of R696,834,057 (2017: R589,842,963) were impaired and provided for.

The amount of the provision was R106,699,094 as of 30 June 2018 (2017: R23,431,451).

### 8. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	164,789	181,116
Bank balances	1,465,455	3
Bank overdraft	-	(4,239,871)
	<b>1,630,244</b>	<b>(4,058,752)</b>
Current assets	1,630,244	181,119
Current liabilities	-	(4,239,871)
	<b>1,630,244</b>	<b>(4,058,752)</b>

The municipality has an overdraft facility of R5,000,000 (2017: R5,000,000). At year end the overdraft amounted to R- (2017: R4,239,871).

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2018	30 June 2017	30 June 2016	30 June 2018	30 June 2017	30 June 2016
ABSA Bank - Cheque account (Primary) - 405-289-8966	3,434,654	729,461	1,138,486	1,475,519	(4,217,297)	(7,518,621)
ABSA Bank - Cheque account (Project) - 100-001-0223	5,953	2,536	1,908	5,953	(22,574)	(408)
ABSA Bank - Cheque account - 40-8862-1820	50	3	577	50	3	577
<b>Total</b>	<b>3,440,657</b>	<b>732,000</b>	<b>1,140,971</b>	<b>1,481,522</b>	<b>(4,239,868)</b>	<b>(7,518,452)</b>

### 9. Biological assets that form part of an agricultural activity

	2018			2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Game stock	3,231,570	-	3,231,570	2,932,610	-	2,932,610



# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
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### 9. Biological assets that form part of an agricultural activity (continued)

#### Reconciliation of biological assets that form part of an agricultural activity - 2018

	Opening balance	Gains or losses arising from changes in fair value	Total
Game stock	2,932,610	298,960	3,231,570

#### Reconciliation of biological assets that form part of an agricultural activity - 2017

	Opening balance	Disposals	Gains or losses arising from changes in fair value	Total
Game stock	3,726,075	(585,950)	(207,515)	2,932,610

### Non - Financial information

#### Quantities of each biological asset

Game stock	1,550	1,136
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The stock count were performed by the community services department in June 2018. The Department of Economic, small business development, tourist and environmental affairs of the Free State (DESTE) assists the municipality in the management of the Wolhuterskop Private Nature reserve.

### 10. Investment property

	2018			2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	51,996,400	-	51,996,400	51,996,400	-	51,996,400

#### Reconciliation of investment property - 2018

	Opening balance	Total
Investment property	51,996,400	51,996,400

#### Reconciliation of investment property - 2017

	Opening balance	Total
Investment property	51,996,400	51,996,400

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.



# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

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### 10. Investment property (continued)

At initial recognition, the municipality measures investment property at fair value to determine a cost price and the fair value model is applied to investment property for subsequent measurement. Under the fair value model, investment property is carried at the fair value at the reporting date.

The initial fair value valuation of the property is supported by market evidence. Management evaluate the market values at each year end and adjustments will be made if there is a significant change in the values.

Revaluations were performed by an independent valuator, Mr Arthur Lelosa Independent valuers, who holds a recognised and relevant qualification, during 2015. A certificate to this extent was received from the above-mentioned valuator.

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

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### 11. Property, plant and equipment

	2018			2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Bins and containers	-	-	-	1,257,645	(1,033,389)	224,256
Community assets - Buildings	277,802,214	(90,953,972)	186,848,242	265,007,057	(80,648,965)	184,358,092
Community assets - Land	138,671,863	-	138,671,863	138,671,863	-	138,671,863
Emergency equipment	-	-	-	283,172	(197,035)	86,137
Furniture and fixtures	4,927,885	(3,803,943)	1,123,942	4,348,627	(3,390,175)	958,452
Infrastructure - Electrical	158,668,795	(97,368,726)	61,300,069	162,581,553	(58,180,716)	104,400,837
Infrastructure - Roads	409,797,147	(175,407,122)	234,390,025	398,741,177	(180,405,470)	238,335,707
Infrastructure - Sewer	403,454,665	(139,917,952)	263,536,713	403,454,665	(124,844,636)	278,610,029
Infrastructure - Water	528,556,519	(140,517,398)	388,039,121	521,547,374	(122,218,539)	399,328,835
Infrastructure solid waste - Buildings	22,249,023	(7,253,581)	14,995,442	17,643,660	(6,519,879)	11,123,781
Infrastructure solid waste - Land	-	-	-	4,605,363	-	4,605,363
Land - owned	418,735,710	-	418,735,710	435,670,710	-	435,670,710
Leased assets	-	-	-	-	1	1
Motor vehicles	14,921,921	(9,668,987)	5,254,934	12,294,701	(8,919,044)	3,375,657
Office equipment	12,251,952	(9,304,773)	2,947,179	11,308,611	(8,244,045)	3,064,566
Other assets	1,540,934	(1,322,999)	217,935	-	-	-
Plant and equipment	15,884,663	(12,237,820)	3,646,843	15,468,043	(11,190,689)	4,277,354
Railways	48,755,739	(27,086,522)	21,669,217	48,755,739	(24,377,870)	24,377,869
Security equipment	-	-	-	6,139	(6,137)	2
Work in progress: Community buildings	513,044	-	513,044	-	-	-
Work in progress: Electrical	7,524,669	-	7,524,669	4,845,548	-	4,845,548
Work in progress: Roads	14,114,083	-	14,114,083	4,940,646	-	4,940,646
Work in progress: Sewer	-	-	-	741,649	(741,649)	-
Work in progress: Water	26,039,940	-	26,039,940	12,902,683	-	12,902,683
<b>Total</b>	<b>2,504,410,766</b>	<b>(714,841,795)</b>	<b>1,789,568,971</b>	<b>2,465,076,625</b>	<b>(610,918,237)</b>	<b>1,854,158,388</b>

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand

### 11. Property, plant and equipment (continued)

#### Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Bins and containers	224,256	-	-	(224,256)	-	-
Community assets - Buildings	184,358,092	1,166,480	-	11,628,677	(10,305,007)	186,848,242
Community assets - Land	138,671,863	-	-	-	-	138,671,863
Emergency equipment	86,137	-	-	(86,137)	-	-
Furniture and fixtures	958,452	579,258	-	-	(413,768)	1,123,942
Infrastructure - Electrical	104,400,837	1,075,124	-	(4,795,017)	(39,380,875)	61,300,069
Infrastructure - Roads	238,335,707	3,106,207	-	7,951,572	(15,009,461)	234,390,025
Infrastructure - Sewer	278,610,029	-	-	-	(15,073,316)	263,536,713
Infrastructure - Water	399,328,835	2,022,009	-	-	(18,106,740)	388,039,121
Infrastructure solid waste - Buildings	11,123,781	-	-	4,795,017	(733,702)	14,995,442
Infrastructure solid waste - Land	4,605,363	-	-	(4,605,363)	-	-
Land - owned	436,670,710	-	(16,935,000)	-	-	418,735,710
Motor vehicles	3,375,657	2,753,045	(39,720)	-	(834,048)	5,254,934
Office equipment	3,064,566	993,537	(37,267)	-	(1,073,657)	2,947,179
Other assets	-	-	-	310,393	(92,458)	217,935
Plant and equipment	4,277,354	410,481	-	2	(1,040,994)	3,646,843
Railways	24,377,869	-	-	-	(2,708,652)	21,669,217
Security equipment	2	-	-	(2)	-	-
Work in progress: Community Buildings	-	7,296,173	-	(6,783,129)	-	513,044
Work in progress: Electrical	4,845,548	7,524,669	-	(4,845,548)	-	7,524,669
Work in progress: Roads	4,940,646	17,125,009	-	(7,951,572)	-	14,114,083
Work in progress: Water	12,902,683	13,137,257	-	-	-	26,039,940
	1,854,158,387	57,189,249	(17,011,987)	-	(104,766,678)	1,789,568,971

**Dhlabeng Local Municipality**  
Annual Financial Statements for the year ended 30 June 2018

**Notes to the Annual Financial Statements**

Figures in Rand

**11. Property, plant and equipment (continued)**

**Reconciliation of property, plant and equipment - 2017**

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment loss	Total
Bins and containers	297,461	-	-	-	(73,205)	-	224,256
Community assets - Buildings	178,630,763	1,676,305	-	13,729,304	(9,678,280)	-	184,358,092
Community assets - Land	138,671,863	-	-	-	-	-	138,671,863
Emergency equipment	102,347	-	-	-	(16,210)	-	86,137
Furniture and fixtures	1,306,051	51,472	(2,281)	-	(396,790)	-	958,452
Infrastructure - Electrical	102,064,626	93,435	-	8,292,833	(6,050,057)	-	104,400,837
Infrastructure - Roads	236,694,760	1,027,362	-	16,371,408	(15,757,823)	-	238,335,707
Infrastructure - Sewer	278,844,116	-	-	17,423,810	(17,657,897)	-	278,610,029
Infrastructure - Water	348,992,624	3,539,929	(84,476)	63,291,477	(16,410,719)	-	399,328,835
Infrastructure solid waste - Building	11,881,179	-	-	-	(757,398)	-	11,123,781
Infrastructure solid waste - Land	4,605,363	-	-	-	-	-	4,605,363
Land - owned	435,670,710	-	-	-	-	-	435,670,710
Leased assets	1	-	-	-	-	-	1
Motor vehicles	3,652,755	347,165	(26,823)	-	(597,440)	-	3,375,657
Office equipment	2,339,268	1,903,577	(96,178)	-	(1,082,101)	-	3,064,566
Plant and equipment	4,621,889	403,081	(1,934)	-	(745,682)	-	4,277,354
Railways	27,086,522	-	-	-	(2,708,653)	-	24,377,869
Security equipment	2	-	-	-	-	-	2
Work in Progress: Community Assets Buildings	7,108,483	6,620,821	-	(13,729,304)	-	-	-
Work in Progress: Electrical	6,549,612	6,588,769	-	(8,292,833)	-	-	4,845,548
Work in Progress: Roads	10,906,739	10,405,315	-	(16,371,408)	-	-	4,940,646
Work in Progress: Sewer	13,238,774	4,926,685	-	(17,423,810)	-	(741,650)	(1)
Work in Progress: Water	38,829,225	37,364,935	-	(63,291,477)	-	-	12,902,683
	<b>1,852,095,133</b>	<b>74,948,851</b>	<b>(211,692)</b>	<b>-</b>	<b>(71,932,255)</b>	<b>(741,650)</b>	<b>1,854,158,387</b>

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2018

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### 12. Intangible assets

	2018			2017		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	4,129,511	(2,443,382)	1,686,129	4,129,512	(1,785,588)	2,343,924

#### Reconciliation of intangible assets - 2018

	Opening balance	Amortisation	Total
Computer software	2,343,924	(657,795)	1,686,129

#### Reconciliation of intangible assets - 2017

	Opening balance	Additions	Amortisation	Total
Computer software	1,854,387	1,137,170	(847,633)	2,343,924

### 13. Heritage assets

	2018			2017		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Historical buildings	46,260,000	-	46,260,000	46,260,000	-	46,260,000

#### Reconciliation of heritage assets 2018

	Opening balance	Total
Historical buildings	46,260,000	46,260,000

#### Reconciliation of heritage assets 2017

	Opening balance	Total
Historical buildings	46,260,000	46,260,000

#### Valuation of heritage assets

Revaluations were performed by an independent valuator, Mr Arthur Lelosa Independent valuers, who holds a recognised and relevant qualification, during 2015. A certificate to this extent was received from the above-mentioned valuator.

The municipality had assessed the heritage assets and confirms that there was no need for the assets to be impaired at the end of the financial period.



# Dhlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2018

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### 13. Heritage assets (continued)

#### Heritage assets used for more than one purpose

The following heritage assets are used by the entity for offices and other purposes and are not included in the heritage assets:

The town hall in Bethlehem is also used as offices.

The museum in Bethlehem is management by the Museum Trust and various other culture organisation uses it for meeting.

Part of Pretorius kloof farm is used as a bird park.

### 14. Other financial liabilities

#### At amortised cost

Development Bank of Southern Africa (DBSA)

37,906,652 41,409,208

Interest will be charged at 10% per year. The loan is repayable in monthly instalments of R621,615 over a period of 7 years.

ABSA

1,706,000

This is installment sale agreements for 2 vehicles with a total book value of R1,967,592. Payable in monthly installment of R18,371 and R18,086 at an interest rate of 10% and 10.25% over a period of 60 months.

39,612,652 41,409,208

#### Total other financial liabilities

39,612,652 41,409,208

#### Non-current liabilities

At amortised cost

34,791,545 37,245,635

#### Current liabilities

At amortised cost

4,821,107 4,163,573

### 15. Payables from exchange transactions

Trade payables

334,139,724 279,006,329

Trade receivables with credit balances

6,569,710 5,283,925

Deposit on land sales

5,120,725 1,400,000

Deposits received

288,959 288,966

Sundry creditors

11,673,454 11,417,480

Salary related creditors

13,819,791 10,497,119

Accrued bonus

5,538,154 4,970,466

Accrued leave

20,931,639 18,260,022

Retention on projects

4,318,416 4,148,255

402,400,572 335,252,562

### 16. VAT receivable

VAT accrued on accounts receivable

2,606,739 4,537,993

VAT accrued on accounts payable

(27,661,449) (28,192,435)

VAT payable to / (refundable by) SARS

4,528,090 9,178,280

(20,526,620) (14,476,162)

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2018

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### 17. Consumer deposits

Water and electricity	7,353,166	6,652,034
Sundry	27,758	250
	<u>7,380,924</u>	<u>6,652,284</u>

### 18. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

#### Movement during the year

Balance at the beginning of the year	-	5,000,000
Unspent National Development Electrification grant recovered from equitable share allocation	-	(5,000,000)
	<u>-</u>	<u>-</u>

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note 28 for reconciliation of grants from National/Provincial Government.

### 19. Provisions

#### Reconciliation of provisions - 2018

	Opening Balance	Change in discount factor	Total
Environmental rehabilitation	2,812,117	(20,596)	2,791,521

#### Reconciliation of provisions - 2017

	Opening Balance	Change in discount factor	Total
Environmental rehabilitation	5,203,000	(2,390,883)	2,812,117

## Dihlabeng Local Municipality

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#### 19. Provisions (continued)

##### Environmental rehabilitation provision

The new dumping site became operational on 1 December 2010 as the old dumping site was closed. On a monthly basis the site is filled with approximately 13 200 cubic meters of cover material, garden waste, industrial waste and building rubble. The landfill site was assessed by Metsi Metseng Geological & Environmental Services and based on the assessment, the provision for the rehabilitation and the closure of the landfill site was calculated over a period of 20 years.

The following key assumptions were made that can impact considerably on the calculation of the provision if they change:

- provision was made to dispose of 2 658 800 cubic metre waste that will fill an area of 129 600 square metres x 18 metres high over a lifespan of 20 years
- an average disposal tempo of 160 cubic metres per day over the 20 year lifespan was used for costing calculations
- an annual inflationary increase of 4.9% (2017: 4.8%) was used for the projected cost

Proper management of the site will increase the number of years of operation and will ensure that environmental compliance is adhered to. The timing of the cashflow is uncertain.

An assessment was done on 22 June 2018 by the firm EnviroMatrix (Pty) Ltd to estimate the total closure cost of the current dumping site in accordance with its licence agreement.

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2018

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### 20. Employee benefit obligations

The amounts recognised in the statement of financial position are as follows:

#### Carrying value

Present value of the defined benefit obligation-wholly unfunded	(21,981,000)	(18,884,000)
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Changes in the present value of the defined benefit obligation are as follows:

Opening balance	(18,884,000)	(18,568,000)
Benefits paid	2,185,000	1,852,000
Net expense recognised in the statement of financial performance	(5,282,000)	(1,168,000)
	(21,981,000)	(18,884,000)

#### Net expense recognised in the statement of financial performance

Current service cost	(79,000)	(135,000)
Past service cost	(1,806,000)	(1,982,000)
Actuarial (gains) losses	(3,397,000)	929,000
	(5,282,000)	(1,168,000)

#### Key assumptions used

The post retirement medical aid liability is valued on a generally accepted actuarial valuation method. The liability was calculated on a member-by-member basis, taking into account the liabilities arising in respect of principal members and their spouses. Ages are calculated as per age on 30 June 2018.

The projected unit credit method was used as prescribed by IAS 19 and GRAP 25. This method is based on the approximation that the post-retirement benefit is notionally built up over the employees' working life.

The actuarial valuation of the PRMA (post-retirement medical aid) liability involves the following:

- the projection of future post-retirement medical contribution subsidy cash flows, taking into account the probabilities of survival, withdrawal, ill-health retirement, early retirement and death in service.
- the medical contribution subsidies arising in respect of adult dependents of employees.
- increasing the projected subsidy cashflows in line with expected long-term contribution escalation.
- discounting these cashflows in order to express the PRMA liability in current Rand terms.

**Discount rate used:** GRAP 25 defines the determination of the Discount rate assumption to be used as follows:

"The discount rate that reflects the time value of money is best approximated by reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.

**CPI used (Consumer Price Inflation):** Difference between nominal and yield curves.

**Medical Aid Contribution Inflation:** CPI + 1%

**Net effective discount rate:** Yield curve based.

**Defined contribution plan**

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2018

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### 20. Employee benefit obligations (continued)

It is the policy of the municipality to provide retirement benefits to all its employees. A number of defined contribution provident funds, all of which are subject to the Pensions Fund Act exist for this purpose. All councillors and employees belong to three defined benefit retirement funds. One fund is administered by the Provincial Pension Fund. The last actuarial valuation as at 30 June 2005 are in the process of being finalised and will be submitted to the Municipality once approved by the executive committee of the fund. Information could not be obtained for the other two funds regarding the administrators or the actuaries.

The municipality is under no obligation to cover any unfunded benefits.

### 21. Long service leave award

Changes in the present value of the defined benefit obligation are as follows:

Opening balance	(13,691,000)	(13,632,000)
Benefits paid	1,129,000	1,859,000
Net expense recognised in the statement of financial performance	(2,947,000)	(1,918,000)
	<u>(15,509,000)</u>	<u>(13,691,000)</u>

### Net expense recognised in the statement of financial performance

Current service cost	(1,502,000)	(1,402,000)
Interest cost	(1,356,000)	(1,513,000)
Actuarial (gains) losses	(89,000)	997,000
	<u>(2,947,000)</u>	<u>(1,918,000)</u>

### Key assumptions used

The long service leave liability is valued on a generally accepted actuarial valuation method. Ages and gender information as at 30 June 2018 were used.

The projected unit credit method was used as prescribed by IAS 19 and GRAP 25. This method is based on the expected value of each employee's long service award is projected to the next interval by allowing for future salary growth.

The actuarial valuation of the Long service leave liability involves the following:

- long service benefits are awarded in the form of leave days and a percentage of salary.
- the calculated award values are then discounted at the assumed discount interest rate to the date of the calculation.
- mortality, retirements and withdrawals from service are also taken into account.
- the liability is determined on the basis that each employee's long service benefits accrues uniformly over the working life of an employee up to the end of the interval at which the benefits becomes payable.
- the current policy for awarding long service awards remains unchanged in the future.



# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>22. Revenue</b>		
Rendering of services	1,519,625	1,853,341
Service charges	336,962,652	331,522,092
Rental of facilities and equipment	4,739,178	4,466,819
Interest received (trading)	48,616,972	46,370,368
Licences and permits	55,639	69,041
Other income	2,917,946	9,131,636
Interest received - investment	274,960	-
Dividends received	8,485	8,264
Property rates	140,553,140	91,450,921
Government grants and subsidies	191,693,517	199,255,223
Fines and penalties	1,210,982	1,018,684
	<b>728,553,096</b>	<b>685,146,389</b>

The amount included in revenue arising from exchanges of goods or services are as follows:

Service charges	336,962,652	331,522,092
Rendering of services	1,519,625	1,853,341
Rental of facilities and equipment	4,739,178	4,466,819
Interest received (trading)	48,616,972	46,370,368
Licences and permits	55,639	69,041
Other income	2,917,946	9,131,636
Interest received - investment	274,960	-
Dividends received	8,485	8,264
	<b>395,096,457</b>	<b>393,421,561</b>

The amount included in revenue arising from non-exchange transactions is as follows:

Taxation revenue		
Property rates	140,553,140	91,450,921
Transfer revenue		
Government grants and subsidies	191,693,517	199,255,223
Fines and penalties	1,210,982	1,018,684
	<b>333,457,639</b>	<b>291,724,828</b>

### 23. Service charges

Sale of electricity	183,483,533	181,686,165
Sale of water	65,495,358	60,976,123
Sewerage and sanitation charges	47,492,049	46,846,726
Refuse removal	40,491,712	42,013,078
	<b>336,962,652</b>	<b>331,522,092</b>

Water distribution losses for the year 31.71% (2017: 37.65%)

Electricity distribution losses for the year 2.48% (2017: 14.44%)

The main reasons for the losses are due to the ageing infrastructure of the networks, also the leakages in the water network and the illegal connections in the electricity network.

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

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2018 2017

### 24. Rental of facilities and equipment

#### Premises

Premises	4,303,440	3,582,050
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#### Facilities and equipment

Rental of equipment	435,738	884,769
	<b>4,739,178</b>	<b>4,466,819</b>

### 25. Other income

Advertising income	-	646,239
Blocked sewerage charges	-	51,875
Building plan fees	518,898	804,332
Clearance certificates	286,940	307,580
Encroachment charges	1,097,625	373,516
Escorting of abnormal freights	182,331	109,299
Insurance claim received	(28,781)	497,492
Landing charges	-	39,708
Donations received	290,900	1,807,786
Festivals	-	700
Parking meter income	-	9,283
Photocopies and faxes	90,585	4,524
Skills development levies received	154,243	368,232
Sundry income	345,205	4,307,411
Sundry income: Electricity	-	(13,667)
Sundry income: Parks	-	5,350
Sundry income: Traffic	-	10,976
	<b>2,917,946</b>	<b>9,131,636</b>

### 26. Investment revenue

#### Dividend revenue

Investments	8,485	8,264
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#### Interest revenue

Bank	199,673	-
Investment	75,287	-
	<b>274,960</b>	<b>-</b>
	<b>283,445</b>	<b>8,264</b>

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

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### 27. Property rates

#### Rates received

Residential	44,320,214	37,211,571
Commercial	52,398,087	36,697,908
State	39,057,775	16,073,141
Small holdings and farms	4,777,064	3,301,882
Less: Income forgone (Indigent subsidies)	-	(833,579)
	<b>140,553,140</b>	<b>91,450,921</b>

#### Valuations

Heading	R '000	R '000
Residential	7,053,788	5,612,148
Commercial	2,177,620	1,687,759
Government	1,744,953	651,435
Municipal	757,046	689,028
Small holdings and farms	3,901,570	2,811,401
	<b>15,634,977</b>	<b>11,451,771</b>

Valuations on land and buildings are performed every four years. The latest general valuation came into effect on 1 July 2017. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

A general rate of R0.008034 (2017: R0.0078) is applied to residential and small holding property valuations to determine assessment rates. Rebates of R40,000 (2017: R22,000) are granted to residential properties and a further 25% (2017: 25%) rebate to pensioners.

A general rate of R0.024102 (2017: R0.0232) is applied to business, industrial, commercial and public service infrastructure property valuations to determine assessment rates. Rebates of 75% (2017: 50%) are granted to public service infrastructure only.

A general rate of R0.008034 (2017: R0.0078) is applied to farm property valuations to determine assessment rates. Rebates of 85% (2017: 85%) are granted to farmers. The rebates granted to farmers are done in accordance with Section 21 of the Municipal Property Rates Act (Act no 6 of 2004).

Rates to farmers and national government are levied on an annual basis with the final date for payment being 7 August 2018. Rates for all other consumers are levied on a monthly basis with the final date for payment before the 7th of each month. Interest at prime plus 1% per annum (2017: prime plus 1%) is levied on rates outstanding after the due date.

The new general valuation will be implemented on 01 July 2021.

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2018

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### 28. Government grants and subsidies

#### Operating grants

Equitable share	129,764,000	124,304,000
Expanded Public Works Programme Grant	1,000,000	1,000,000
COGTA (FS) - Financial assistance	-	1,352,210
Financial Management Grant	1,700,000	1,625,000
Library Grant	2,500,000	2,334,000
	<b>134,964,000</b>	<b>130,615,210</b>

#### Capital grants

Municipal infrastructure grant (MIG)	39,281,000	36,892,000
Department of Water affairs grant (DWAF)	2,448,517	31,748,013
Water service infrastructure grant	15,000,000	-
	<b>56,729,517</b>	<b>68,640,013</b>
	<b>191,693,517</b>	<b>199,255,223</b>

#### Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	61,929,517	74,951,223
Unconditional grants received	129,764,000	124,304,000
	<b>191,693,517</b>	<b>199,255,223</b>

#### Equitable Share

Current-year receipts	129,764,000	124,304,000
Conditions met - transferred to revenue	(129,764,000)	(124,304,000)
	<b>-</b>	<b>-</b>

The equitable share allocation was fully utilised during the financial year.

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

#### Municipal Infrastructure Grant

Current-year receipts	39,281,000	36,892,000
Conditions met - transferred to revenue	(39,281,000)	(36,892,000)
	<b>-</b>	<b>-</b>

This grant was fully utilised for the upgrading of sports facilities, sanitation (upgrading of waste water treatment works) and the construction of roads during the year.

#### Financial Management Grant

Current-year receipts	1,700,000	1,625,000
Conditions met - transferred to revenue	(1,700,000)	(1,625,000)
	<b>-</b>	<b>-</b>

The municipal management grant was fully utilised during the financial year.

#### Expanded Public Works Programme Grant

Current-year receipts	1,000,000	1,000,000
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# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2018

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### 28. Government grants and subsidies (continued)

Conditions met - transferred to revenue	(1,000,000)	(1,000,000)
	-	-

The expanded public works programme grant was fully utilised during the financial year.

#### COGTA (FS) - Financial assistance

Current-year receipts	-	1,352,210
Conditions met - transferred to revenue	-	(1,352,210)
	-	-

The financial assistance grant from Free State Cooperative Governance and Traditional Affairs was fully utilised during the previous financial year.

#### Department of Water Affairs Grant (DWAF)

Current-year receipts	2,448,517	31,748,013
Conditions met - transferred to revenue	(2,448,517)	(31,748,013)
	-	-

This grant was utilised during the year for the upgrading of the water infrastructure network to Paul Roux and Rosendal.

#### Water Services Infrastructure Grant

Current-year receipts	15,000,000	-
Conditions met - transferred to revenue	(15,000,000)	-
	-	-

The water service infrastructure grant was fully utilised during the financial year for the upgrading of reservoirs in Clarens and Bohlakong.

#### Library Grant

Current-year receipts	2,500,000	2,334,000
Conditions met - transferred to revenue	(2,500,000)	(2,334,000)
	-	-

The library grant was fully utilised during the financial year.



## Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2018

### Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>28. Government grants and subsidies (continued)</b>		
<b>National Development Electrification Grant</b>		
Balance unspent at beginning of year	-	5,000,000
Unspent amount recovered from Equitable share payment	-	(5,000,000)
	-	-

This grant were not utilized during the year under review.

#### Changes in level of government grants

Based on the allocations set out in the Division of Revenue Act, (Act 2 of 2018) no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

#### 29. Employee costs

Basic	146,003,272	124,691,645
Bonus	11,552,397	9,167,548
Medical aid - company contributions	18,934,754	15,074,469
UIF company contributions	1,422,101	1,312,583
SDL	2,094,841	-
Other payroll levies	78,416	72,028
Leave pay provision charge	3,804,725	640,908
Defined contribution plans	3,816,777	4,977,252
Overtime payments	6,049,845	9,510,376
Long-service awards	558,267	-
13th Cheques	4,645,147	6,420,261
Acting allowances	4,246,743	-
Car allowance	5,275,497	4,594,178
Housing benefits and allowances	523,507	1,838,791
Group life insurance	273,300	254,360
Pensionfund contributions	24,392,989	21,562,331
Other allowances	423,444	1,450,128
Telephone allowances	332,400	313,042
Relief payments	-	3,661,652
	<b>234,528,232</b>	<b>205,541,550</b>

#### Remuneration of municipal manager

Annual Remuneration	1,029,972	1,139,539
Car Allowance	380,441	447,157
Leave paid out	231,318	91,306
Contributions to UIF, Medical and Pension Funds	1,969	17,317
Cellphone allowance	18,000	18,000
	<b>1,661,700</b>	<b>1,713,319</b>

Mr BP Molatseli as from 01 July 2016 to 30 June 2018.

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2018

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### 29. Employee costs (continued)

#### Remuneration of chief finance officer

Annual Remuneration	854,077	809,546
Car Allowance	285,287	279,139
Leave paid out	69,656	-
Contributions to UIF, Medical and Pension Funds	1,785	11,284
Cellphone allowance	12,000	12,000
	<b>1,222,805</b>	<b>1,111,969</b>

Mr PD Khiba from 1 January 2016 to 30 June 2017.

#### Remuneration of director technical

Annual Remuneration	651,691	717,744
Car Allowance	217,676	242,316
Leave paid out	-	344,656
Contributions to UIF, Medical and Pension Funds	1,338	13,957
Cellphone allowance	9,000	8,000
Acting allowance	25,979	-
	<b>905,684</b>	<b>1,326,673</b>

Mr AB Masuku from 1 July 2015 to 28 February 2017 and Mr NE Shabalala from 1 October 2017 to 30 June 2018.

#### Remuneration of director corporate services

Annual Remuneration	506,871	-
Car Allowance	169,304	-
Contributions to UIF, Medical and Pension Funds	892	-
Cellphone allowance	7,000	-
Leave paid out	27,862	-
	<b>711,929</b>	<b>-</b>

Me MS Mabula from 1 December 2017 to 30 June 2018.

#### Remuneration of director community services

Annual Remuneration	651,691	806,429
Car Allowance	217,678	269,256
Leave paid out	37,150	327,414
Contributions to UIF, Medical and Pension Funds	1,338	15,069
Cellphone allowance	9,000	9,000
	<b>916,855</b>	<b>1,427,168</b>

Mrs MC Sepheka from 1 July 2015 to 30 March 2017 and Mrs MAB Mosima from 1 October 2017 to 30 June 2018.

#### Remuneration director of local economic development

Annual Remuneration	144,820	716,826
Car Allowance	48,373	244,510
Leave paid out	-	281,471
Contributions to UIF, Medical and Pension Funds	297	13,316
Cellphone allowance	2,000	8,000
	<b>195,490</b>	<b>1,264,123</b>

Mrs GT Hadebe from 1 July 2015 to 28 February 2017 and Mr NP Mondl from 1 May 2018 to 30 June 2018.

# Dihlabeng Local Municipality

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### 30. Remuneration of councillors

2018	Allowance	Travel allowance	Cell phone allowance	Total
Executive Mayor	826,414	-	40,800	867,214
Speaker	661,129	-	40,800	701,929
Mayoral executive committee	3,922,709	497,896	297,171	4,717,776
Councillors	8,050,277	793,305	1,199,165	10,042,747
	<b>13,460,529</b>	<b>1,291,201</b>	<b>1,577,936</b>	<b>16,329,666</b>
2017	Allowance	Travel allowance	Cell phone allowance	Total
Executive Mayor	662,095	99,935	27,510	789,540
Speaker	530,298	80,104	27,510	637,912
Chief whip	41,941	10,485	1,853	54,279
Chairman Public Accounts committee	39,145	9,786	1,853	50,784
Chairman Policy committee	21,632	5,408	1,853	28,893
Mayoral executive committee	3,445,417	625,839	161,768	4,233,024
Councillors	5,855,890	1,145,792	644,504	7,646,186
	<b>10,596,418</b>	<b>1,977,349</b>	<b>866,851</b>	<b>13,440,618</b>

### In-kind benefits

The Mayor, Speaker, Chief whip, Chairpersons of committees and Mayoral Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council.

The Mayor and the Speaker each have the use of separate Council owned vehicles for official duties.

### 31. Depreciation, impairment and amortisation

Intangible assets	657,794	647,632
Property, plant and equipment	104,762,573	72,673,902
	<b>105,420,367</b>	<b>73,321,534</b>

Also refer to the detail note on Intangible assets (Note 12) and Property, plant and equipment (Note 11) for the details on depreciation and impairment.

### 32. Finance costs

Penalties and Interest on late payment of VAT	(208,966)	5,367,668
Other interest paid	21,425,098	11,331,106
	<b>21,216,132</b>	<b>16,698,775</b>

### 33. Debt impairment

Contributions to debt impairment on consumer debtors and exchange debtors	71,036,436	22,625,223
Contributions to debt impairment on non-exchange debtors	35,954,660	4,460,708
Bad debts written off	52,663,710	101,332,488
	<b>159,654,806</b>	<b>128,418,419</b>

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>34. Bulk purchases</b>		
Electricity	140,432,079	152,294,859
Water	2,082,657	-
	<b>142,514,736</b>	<b>152,294,859</b>
<b>35. Contracted services</b>		
Meter reading services	3,670,634	2,521,517
<b>36. General expenses</b>		
Advertising	783,615	822,815
Assets expensed	-	283,238
Auditors remuneration	6,508,575	3,956,523
Bank charges	1,627,759	1,314,580
Bursaries	2,508,406	2,516,093
Capital projects	-	1,143,056
Chemicals	1,838,943	3,382,439
Civic funeral cost	-	132,296
Commission paid	3,730,784	2,812,911
Community development and training	30,222,481	8,436,979
Consultation and professional fees	16,320,790	15,313,186
Consumables	4,134,419	166,731
Disaster management	907,339	-
Donations	-	4,258,843
EPWP Grant expenses	-	165,133
Entertainment	656,635	243,601
Fines and penalties	283	194,465
Fuel and oil	1,661,088	8,521,527
Insurance	5,610,543	5,656,588
Lease expenditure	1,570,662	13,952,984
License fees	510,686	1,907,444
Management of landfill site	6,182,333	6,722,217
Pauper burials	93,672	71,707
Postage and courier	1,757,354	2,270,767
Printing and stationary	2,470,235	713,816
Promotions and marketing	909,000	350,179
Public participation expenses	6,287,044	5,347,022
Rental of equipment	4,275,935	19,937,708
Repairs and maintenance	13,059,226	17,235,175
Security (Guarding of municipal property)	22,049,475	19,929,689
Sitting allowances	23,000	-
Staff training	-	629,080
Subscriptions and membership fees	1,632,194	4,225,365
Telephone and fax	1,845,411	3,905,118
Travel - local	3,718,670	1,575,507
Travel - overseas	7,838	-
Uniforms	4,675,353	2,734,488
Valuation costs	1,933,592	1,600,000
	<b>149,513,350</b>	<b>162,429,268</b>
<b>37. Fair value adjustments</b>		
Other financial assets / liabilities		
• Investments	114,019	76,146

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand

	2018	2017
<b>38. Auditors' remuneration</b>		
Fees	6,508,575	3,956,523
<b>39. Operating lease income</b>		
Projected income from operating lease agreements		
- Within one year	531,174	516,410
- In second to fifth year (inclusive)	1,961,250	2,228,889
- Longer than 5 years	-	83,407
	<b>2,492,424</b>	<b>2,828,706</b>
<p>Rental contracts for the different flats (100), vacant land (7) and houses (160) are signed for a period of 12 months, thereafter the contract is done on a month to month basis. All the house and flat contracts got a month notice period. New tenants are normally found within that period. The projected income are thus only included in the period within one year. Contacts for business premises (7) rental are signed for a periods from 3 year to 9 years and 11 months. Escalation on these contracts are done on an annual basis linked to the inflation rate.</p>		
<b>40. Cash generated from operations</b>		
Deficit	(128,995,786)	(74,121,501)
<b>Adjustments for:</b>		
Depreciation and amortisation	105,420,367	73,321,534
(Loss) / Profit on sale of assets and liabilities	16,013,476	(447,271)
Gain (loss) on game stock	(298,960)	207,515
Actuarial loss / (gain)	3,486,000	(1,926,000)
Fair value adjustments on investments	(114,019)	(76,146)
Debt impairment	159,654,806	128,418,419
Movements in provisions	(20,596)	(2,390,883)
<b>Changes in working capital:</b>		
Inventories	75,816	(184,812)
Receivables from exchange transactions	5,545,134	2,189,943
Consumer debtors	(158,135,608)	(123,813,986)
Other receivables from non-exchange transactions	(2,213,825)	812,448
Payables from exchange transactions	68,581,304	83,421,508
VAT	(6,050,458)	(6,479,021)
Unspent conditional grants and receipts	-	(5,000,000)
Provisions	728,640	701,588
	<b>63,676,291</b>	<b>74,633,335</b>



# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

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### 41. Financial instruments disclosure

#### Categories of financial instruments

2018

#### Financial assets

	At fair value	At amortised cost	At cost	Total
Other financial assets	1,662,933	-	-	1,662,933
Trade and other receivables from exchange transactions	-	12,412,900	-	12,412,900
Other receivables from non-exchange transactions	-	2,377,248	170,000	2,547,248
Consumer debtors	-	58,494,724	-	58,494,724
Cash and cash equivalents	-	1,630,244	-	1,630,244
	<b>1,662,933</b>	<b>74,915,116</b>	<b>170,000</b>	<b>76,748,049</b>

#### Financial liabilities

	At amortised cost	Total
Other financial liabilities	39,612,652	39,612,652
Trade and other payables from exchange transactions	402,400,572	402,400,572
	<b>442,013,224</b>	<b>442,013,224</b>

2017

#### Financial assets

	At fair value	At amortised cost	At cost	Total
Other financial assets	1,549,097	-	-	1,549,097
Trade and other receivables from exchange transactions	-	17,958,034	-	17,958,034
Other receivables from non-exchange transactions	-	163,423	170,000	333,423
Consumer debtors	-	60,013,924	-	60,013,924
Cash and cash equivalents	-	181,119	-	181,119
	<b>1,549,097</b>	<b>78,316,500</b>	<b>170,000</b>	<b>80,035,597</b>

#### Financial liabilities

	At amortised cost	Total
Other financial liabilities	41,409,208	41,409,208
Trade and other payables from exchange transactions	335,252,561	335,252,561
Bank overdraft	4,239,871	4,239,871
	<b>380,901,640</b>	<b>380,901,640</b>

# Dihlabeng Local Municipality

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## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>42. Commitments</b>		
<b>Authorised capital and operational expenditure</b>		
<b>Capital expenditure</b>		
▪ Property, plant and equipment	20,788,131	76,113,555
<b>Operational expenditure</b>		
▪ Insurance	-	9,128,185
▪ Investments in controlled entities	-	-
▪ Computer expenses	-	293,718
▪ Town planning	199,745	649,800
▪ Landfill site management	8,621,004	16,578,329
▪ Valuation roll maintenance	-	408,363
	<b>8,820,749</b>	<b>27,056,395</b>
<b>Total capital commitments</b>		
Capital expenditure	20,788,131	76,113,555
Operational expenditure	8,820,749	27,056,395
	<b>29,608,880</b>	<b>103,169,950</b>

This committed expenditure of the following cannot be determined due to the variable nature of the contract:

Project Description:	Oos Vrystaat Grondverskuiwing, Aqua Transport and Mashinini Trust - Hire of yellow plant and equipment	
Project Value:	As per pricing schedule	
Expenditure to date:	R- (2018)	R11 142 150 (2017)
Project Description:	Bohlokong Computers - Design and administer Information, Communication and Technology services	
Project Value:	As per pricing schedule	
Expenditure to date:	R6 586 445 (2018)	R6 588 593 (2017)
Project Description:	Integral Laboratories - Laboratory services for the analysis of water and waste water samples	
Project Value:	As per pricing schedule	
Expenditure to date:	R- (2018)	R248 797 (2017)
Project Description:	Hamisa - Supply and delivery of fuel	
Project Value:	As per regulated tariffs by Department of Energy	
Expenditure to date:	R5 626 093 (2018)	R5 404 770 (2017)
Project Description:	Pumpshop Africa & Tecrover - Appointment of service provider to refurbish, maintain, supply, deliver and install electrical and mechanical equipment	
Project Value:	As per pricing schedule	
Expenditure to date:	R- (2018)	R1 923 351 (2017)
Project Description:	Walking Tall Trading and Projects - Supply and Delivery of Personnel Protective Equipment	

# Dihlabeng Local Municipality

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## Notes to the Annual Financial Statements

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### 42. Commitments (continued)

Project Value:	As per pricing schedule	
Expenditure to date:	R3 348 854 (2018)	R1 581 543 (2017)
Project Description:	Walking Tall Trading and Projects - Events management services	
Project Value:	As per pricing schedule	
Expenditure to date:	R7 652 732 (2018)	R- (2017)
Project Description:	Ben Ben Technologies (Pty) Ltd / Proxy Investment (Pty) Ltd - Mechanical services, repairs and maintenance of municipal vehicles	
Project Value:	As per pricing schedule	
Expenditure to date:	R170 352 (2018)	R743 218 (2017)
Project Description:	Radimpe Construction and General Trade - Supply and delivery of Electricity Materials	
Project Value:	As per pricing schedule	
Expenditure to date:	R6 508 246 (2018)	R7 352 526 (2017)
Project Description:	Jicama Trading, Blendtech and Born Free Investments - Supply and delivery of chemicals for water purification	
Project Value:	As per pricing schedule	
Expenditure to date:	R1 607 642 (2018)	R2 328 106 (2017)
Project Description:	Clarens Village Conservancy - Enviromental management and waste recycling serives at Clarens Unit	
Project Value:	As per pricing schedule	
Expenditure to date:	R- (2018)	R78 801 (2017)
Project Description:	Bravolex Hexing - Sourcing of funds, supply, installation and commissioning of a smart meterering solution	
Project Value:	As per pricing schedule	
Expenditure to date:	R- (2018)	R- (2017)
Project Description:	Kunene Ramapala Inc - Registered debt collection agency	
Project Value:	10% commission fee	
Expenditure to date:	R1 899 693 (2018)	R- (2017)
Project Description:	Ikagend Electrical Contractors - Manufacture, supply, delivery, erection, testing and maintenance of 40m RYLO type high mast	
Project Value:	As per pricing schedule	
Expenditure to date:	R7 363 847 (2018)	R- (2017)
Project Description:	Configen C C- Appointment of Service Provider for Provision of Physical Security Services	
Project Value:	As per pricing schedule	

## Dihlabeng Local Municipality

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#### 42. Commitments (continued)

Expenditure to date: R24 649 591 (2018) R- (2017)

Project Description: EMTP Trading-Supply and Installation of a Performance Management Electronic System

Project Value: As per pricing schedule

Expenditure to date: R610 016 (2018) R- (2017)

Project Description: Manna Holdings-Appointment of professional valuer for compilation and maintenance of the valuation roll and supplementary valuation roll

Project Value: As per pricing schedule

Expenditure to date: R2 208 855 (2018) R- (2017)

#### Operating leases - as lessee (expense)

##### Minimum lease payments due

- within one year	328,040	1,936,268
- in second to fifth year inclusive	-	322,711
	<u>328,040</u>	<u>2,258,979</u>

Operating lease payments represent rentals payable by the municipality for certain of its computer equipment and printers. The lease contract will expire at the end of August 2018.

#### 43. Contingencies

The following civil cases are currently being finalised:

##### Rudnat Projects CC:

This case is handled by Niemann Grobbelaar Attorneys and is regarding outstanding payment on contract. Possible liability of R100 448.

##### Telkom Limited SA/DLM:

This case is handled by Niemann Grobbelaar Attorneys and is regarding a claim that Telkom lodged against the Dihlabeng Local Municipality to the amount of R141 514. Telkom claim that a sewerage spillage damaged their equipment. Possible liability of R141 514.

##### Udumo Trading 147 CC:

This case is handled by Niemann Grobbelaar Attorneys and is regarding a claim that Udumo Trading lodged against the Dihlabeng Local Municipality for R3 700 000. Udumo claim that they completed a reservoir in Clarens and was not fully paid. Possible liability of R3 700 000.

##### Wage curve agreements:

Dihlabeng has not been task graded as yet and therefore the new T scales cannot be implemented. No job grade evaluations has been done either for the posts at DLM. Since this information is not available yet, no financial implications can be established. Only after the job evaluations has been accepted and approved by all the applicable parties a financial implication can be calculated.

##### Prentec (Pty) Ltd:

This case is handled by Niemann Grobbelaar Attorneys and is regarding an outstanding payment for services rendered by Prentec (Pty) Ltd for the waste water project in Mautsendal. Possible liability of R4 234 634.

##### Damcivils (Pty) Ltd:

This case is handled by Niemann Grobbelaar Attorneys and is regarding an outstanding payment for services rendered by Damcivils for the roads and stormwater project in Bakenpark ext 5. Possible liability of R31 925 142.

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

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### 43. Contingencies (continued)

South African Municipal Workers Union (SAMWU) National Provident Fund:

This case is handled by Niemann Grobbelaar Inc. The SAMWU Provident Fund is claiming an amount of R2 370 801 for loss of income due to the fact that dismissed employees changed pension funds. Possible liability of R2 370 801.

MP Mofokeng:

This case is handled by Niemann Grobbelaar Attorneys and is regarding a child that fell in an open manhole and died. Possible liability of R600,000.

Telkom SA Soc Ltd:

This case is handled by Niemann Grobbelaar Attorneys and is regarding a claim that Telkom lodged against the Dihlabeng Local Municipality to the total amount of R211 669. Telkom claim that telecommunication cables and/or telecommunication infrastructure was damaged at or near Stands 36, 60, 102 and 145, Fateng tse Ntsho, Paul Roux. Possible liability of R211 669.

GA and N Schoombie:

This case is handled by Niemann Grobbelaar Attorneys and is regarding a claim for water damages after a municipal pump burst into their house. Possible liability of R43 196.

Rudnat Projects CC:

This case is handled by Niemann Grobbelaar Attorneys and is regarding an outstanding payment from the water services infrastructure grant. Possible liability of R4 856 544.

Emendo Inc: Development Agreement: Bakenpark Extensions 5, 6 & 7:

This case is handled by Niemann Grobbelaar Attorneys and is regarding the lodging of a High Court Application regarding the appointment of Emendo Inc to nullify the agreement of the land availability and development agreement for Bakenpark Extensions 5, 6 & 7.

Ke a Dira Construction:

This case is handled by Niemann Grobbelaar Attorneys and is regarding the appointment of another service provider for the construction of 1,8 km block paved roads and storm water drains in Bohlokong, Bethlehem.

MVD Xariep Raadgewende Ingeneurs CC:

This case is handled by Niemann Grobbelaar Inc and is regarding an outstanding payment for professional services rendered to the municipality. Possible liability of R106 018.

Telkom SA Soc Ltd:

This case is handled by Niemann Grobbelaar Attorneys and is regarding a claim that Telkom lodged against the Dihlabeng Local Municipality to the amount of R25 486. Telkom claim that telecommunication cables and/or telecommunication infrastructure was damaged at or near Stand 400, Fateng tse Ntsho, Paul Roux. Possible liability of R25 486.

MS Sithole / Donald Ndwandwe:

This is regarding an eviction matter. The amount of R83 543 is claimed from the municipality for losses and/or from the employee who were responsible for the eviction. The case is handled by Niemann Grobbelaar.



# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
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### 44. Related parties

#### Relationships

Municipal ward councillors

Mofumahadi General Services t/a Mabuyas Funeral Services from Councillor MF Mabuya

Members of key management  
Councillors

All Section 57 managers  
All municipal councillors

The municipality also provides municipal services to the Councillors and Section 57 managers. These services are provided at normal terms and conditions. This does not represent a significant part of the income of the municipality.

#### Related party balances

##### Amounts included in Trade receivable regarding related parties

Councillors in arrears (refer to Note 53)	378,448	619,846
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#### Related party transactions

##### Purchases from (sales to) related parties

Mofumahadi General Services t/a Mabuyas Funeral Services	-	14,200
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##### Remuneration paid to related parties

Section 57 Managers (refer to Note 29)	5,614,463	6,843,252
Councillors (refer to Note 30)	16,329,665	13,440,618

### 45. Prior period errors

Duplications were discovered on the Land owned register and corrected.

Small differences between the detailed asset registers and the financial statements were corrected.

The correction of the error(s) results in adjustments as follows:

Statement of financial position	2017	2016
Property, plant and equipment	138,594	138,594
Opening Accumulated Surplus or Deficit	(138,594)	(138,594)

### 46. Risk management

#### Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance. The municipality uses derivative financial instruments to hedge certain risk exposures. Risk management is carried out by a central treasury department (entity treasury) under policies approved by the accounting officer. Municipality treasury identifies, evaluates and hedges financial risks in close co-operation with the municipality's operating units. The accounting officer provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

# Dhlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

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### 46. Risk management (continued)

#### Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

The table below analyses the municipality's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

At 30 June 2018	Contractual cash flow	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Borrowings	39,612,652	4,858,950	4,582,076	16,805,921	13,365,705
Trade and other payables	402,400,572	402,400,572	-	-	-
At 30 June 2017	Contractual cash flow	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Borrowings	41,409,208	4,163,573	3,874,264	14,236,329	19,135,052
Trade and other payables	335,252,561	335,252,561	-	-	-

#### Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counterparty.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the council. Outstanding accounts are followed up monthly and the supply of electricity accounts not paid on due dates are cut immediately.

#### Market risk

##### Interest rate risk

The municipality's interest rate risk arises from consumer debtors. Consumer debtors are levied at variable rates expose the municipality to cash flow interest rate risk. The interest rate is linked to the prime interest rate and the risk is not considered to be material at this stage. Long term borrowings was done at a fixed rate and interest rate risk will not impact the financial position of the municipality.

##### Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The municipality's investments in equity of other entities that are publicly traded on the JSE, but does not have a material effect on the municipality's income.

### 47. Going concern

We draw attention to the fact that at 30 June 2018, the municipality had incurred a net loss of R128,985,786 (2017: R74,121,500) during the year and that the municipality's total liabilities exceed its current assets by R391,374,913 (2017: R254,651,169). In addition, the municipality owed Eskom R198,787,501 (2017: R172,364,929) at 30 June 2018 which is long overdue. The municipality is not able to timely recover outstanding amounts from consumer debtors and this is resulting in the inability to pay their suppliers within the 30 day time period.

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

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### 47. Going concern (continued)

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

### 48. Events after the reporting date

There is no events after the reporting date.

### 49. Unauthorised expenditure

Opening balance	150,705,542	67,598,316
Current year unauthorised expenditure	160,180,789	83,107,226
Less: Approved by Council during the year	(139,124,051)	-
	<b>171,762,280</b>	<b>150,705,542</b>

The reason for the unauthorised expenditure was mainly the increase in the provision for bad debts above the budgeted amount of R51m, depreciation of R31m and general expenditure of R57m.

### 50. Fruitless and wasteful expenditure

Opening balance	48,677,198	26,087,544
Interest paid during the year	24,575,306	22,589,654
Less: Approved by Council during the current year	(46,935,870)	-
Less: Interest and penalties written back by SARS during the year	(208,966)	-
	<b>26,107,668</b>	<b>48,677,198</b>

Interest and penalties paid on Eskom and other creditors occurred due to cash flow constraints during the year.

### 51. Irregular expenditure

Opening balance	85,891,480	74,714,661
Add: Irregular Expenditure - current year	8,323,053	11,176,819
Less: Amounts written off by Council	(85,821,355)	-
	<b>8,393,178</b>	<b>85,891,480</b>

### Analysis of expenditure awaiting approval

Current year irregular expenditure	8,323,053	11,176,819
Conditional grant not used in terms of conditions	-	5,000,000
Prior years irregular expenditure	70,125	69,714,661
	<b>8,393,178</b>	<b>85,891,480</b>

### Possible irregular expenditure pending further investigation

Name of director	State institution where employed	Company name	Amount of expenditure
Mr WN Venter	Free State Education	Kovsie Country Lodge	18,240
Mr RP de Koker	Free State Education	Richkor (Pty) Ltd	16,200
Mr CG Higgins	Health & Wealth SETA	Pro Admin (Pty) Ltd	38,240
Mr IAK Valodia	Competition Tribunal	Wits Commercial Enterprise	12,500
			<b>86,180</b>

# Dihlabeng Local Municipality

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### 52. Additional disclosure in terms of Municipal Finance Management Act

#### Contributions to organised local government

Opening balance	1,907,070	1,907,070
Current year subscription / fee	2,167,270	1,907,070
Previous year subscription fee adjustment	144,937	-
Amount paid - previous years	(1,000,000)	(1,907,070)
	<b>3,219,277</b>	<b>1,907,070</b>

#### Audit fees

Opening balance	1,314,621	264,450
Current year subscription / fee	6,502,833	3,937,432
Amount paid - current year	(5,193,953)	(2,622,811)
Amount paid - previous years	(1,314,621)	(264,450)
	<b>1,308,880</b>	<b>1,314,621</b>

#### PAYE and UIF

Opening balance	2,192,345	2,034,803
Current year subscription / fee	29,643,521	26,615,347
Amount paid - current year	(27,061,227)	(24,423,002)
Amount paid - previous years	(2,192,345)	(2,034,803)
	<b>2,582,294</b>	<b>2,192,345</b>

#### Pension and Medical Aid Deductions

Opening balance	5,161,769	4,779,882
Current year subscription / fee	66,631,832	59,447,854
Amount paid - current year	(65,777,774)	(54,280,858)
Amount paid - previous years	(5,161,769)	(4,785,109)
	<b>854,058</b>	<b>5,161,769</b>

#### VAT

VAT receivable	20,526,620	14,476,162
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VAT output payables and VAT input receivables are shown in note 16.

Not all the VAT returns have been submitted by the due date throughout the year.

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand

### 52. Additional disclosure in terms of Municipal Finance Management Act (continued)

#### Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2018:

30 June 2018	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
TM Mofokeng	1,993	412	2,405
PD Lengoabala	15,472	130,133	145,605
KJ Rathebe	8,764	85,756	94,520
DB Michaels	3,096	1,236	4,332
TMH Mofokeng	8,764	122,822	131,586
	<b>38,089</b>	<b>340,359</b>	<b>378,448</b>

30 June 2017	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
ME Lekhoa	2,571	37,013	39,584
PD Lengoabala	25,822	200,078	225,700
J Nhlapo	2,497	36,089	38,586
MF Mabuya	4,259	56,698	60,957
MA Maleka	1,343	462	1,805
EM Maswili	3,879	82,551	86,430
TJ Mbambi	72	28	100
TI Mofokeng	2,220	18,979	21,199
TM Mofokeng	1,976	4,435	6,411
TMH Mofokeng	2,287	5,689	7,976
MA Motaung	408	2,179	2,587
MD Motaung	8,285	4,140	12,425
ET Motloung	3,073	24,054	27,127
MK Mthombeni	3,337	4,948	8,285
MV Olifant	306	90	396
JM Radebe	2,155	32,041	34,196
ME Sempe	2,033	28,817	30,850
TJ Tseki	3,454	6,078	9,532
DL Xaba	2,323	3,377	5,700
	<b>72,100</b>	<b>547,746</b>	<b>619,846</b>

During the year the following Councillors' had arrear accounts outstanding for more than 90 days.

30 June 2018	Highest outstanding amount	Aging (in days)
TM Mofokeng	2,405	120
PD Lengoabala	145,605	120
KJ Rathebe	96,347	120
DB Michaels	5,593	120
TMH Mofokeng	131,778	120
	<b>381,728</b>	<b>600</b>

30 June 2017	Highest outstanding amount	Aging (in days)
ME Lekhoa	39,584	120



## Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2018

### Notes to the Annual Financial Statements

Figures in Rand

#### 52. Additional disclosure in terms of Municipal Finance Management Act (continued)

PD Lengoabala	240,285	120
J Nhlapo	38,586	120
MF Mabuya	64,198	120
MA Maleka	8,662	120
EM Maswili	86,430	120
TJ Mbambi	4,768	120
TI Mofokeng	21,199	120
TM Mofokeng	9,752	120
THM Mofokeng	7,976	120
MA Motaung	17,272	120
MD Motaung	12,425	120
ET Motloung	27,127	120
MK Mthombeni	8,245	120
MV Olifant	5,864	120
JM Radebe	34,196	120
ME Sempe	30,850	120
TJ Tseki	12,696	120
DL Xaba	42,485	120
	<b>712,400</b>	<b>2,280</b>

#### Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the City Manager and noted by Council. The expenses incurred as listed hereunder have been condoned.

#### Incident

Emergencies	1,116,422	402,464
Sole providers	160,888	175,715
Impractical	45,715	127,106
	<b>1,323,025</b>	<b>705,285</b>

#### 53. Budget differences

##### Material differences between budget and actual amounts

Refer to paragraph 2.4 of the Accounting officers report for the detail explanations of the material variances.

## Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2018

### Notes to the Annual Financial Statements

Figures in Rand

#### 54. In-kind donations and assistance

10 laptops were donated to Cuban students on 17 September 2017.

100 calculators were donated to Tiisetsang secondary school in October 2017.

A total of 750 food parcels were donated to indigent residents of Bethlehem, Paul Roux, Rosendal and Fouriesburg.

In January 2018, 50 laptops and 50 cell-phones were donated to 2017 matriculants who performed well during a "Well done function".

In February 2018, a total of 275 pairs of school shoes were donated to various churches in Bethlehem, Paul Roux, Clarens, Rosendal and Fouriesburg.

100 calculators were donated to Ipolokeng Secondary school in March 2018.

1000 T-shirts were donated to pupils in Grade 10, 11 and 12 during the career jamboree event from 26 – 28 April 2018.

Cash amount donated to Big Fellas, Free State Stars, Sandile Makhubo, Kananelo Services, Joyini Petra Barry and Liebenburg Charleton.

#### 55. Change in estimate

##### Provisions

The projected construction section inflation percentage was changed in the current year from 4.8% to 4.9%. The effect of this revision has increased the interest paid for the current year by R20,596.

#### 56. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

Emergency	1,116,422	405,004
Sole provider	160,888	173,175
Impractical	45,715	95,806
	<u>1,323,025</u>	<u>673,985</u>

Schedule of external loans as at 30 June 2018

Loan Number	Redeemable	Balance at 30 June 2017	Received during the period	Redeemed written off during the period	Balance at 30 June 2018	Carrying Value of Plant & Equip Rand	Other Costs in accordance with the MFMA Rand
		Rand	Rand	Rand	Rand		
Development Bank of South Africa							
Long term loan	30/06/2025	41,409,208	-	3,171,713	38,237,495	-	-
		41,409,208	-	3,171,713	38,237,495	-	-
Total external loans							
Development Bank of South Africa							
		41,409,208	-	3,171,713	38,237,495	-	-
		41,409,208	-	3,171,713	38,237,495	-	-

**Dihlabeng Local Municipality**  
**Dihlabeng Local Municipality**  
**Appendix B**  
June 2018

**Analysis of property, plant and equipment as at 30 June 2018**  
**Cost/Revaluation**  
**Accumulated depreciation**

	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
<b>Land and buildings</b>														
Land Owned	439,943,410	-	-	-	-	-	439,943,410	-	-	-	-	-	-	439,943,410
Land - Solid waste	4,605,363	-	-	-	-	-	4,605,363	-	-	-	-	-	-	4,605,363
Buildings - Solid waste	17,653,860	-	-	-	-	-	17,653,860	16,762,481	-	-	(7,573,395)	-	(6,519,879)	11,123,761
	<b>462,192,433</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>462,192,433</b>	<b>(5,762,481)</b>	<b>-</b>	<b>-</b>	<b>(7,573,395)</b>	<b>-</b>	<b>(6,519,879)</b>	<b>455,672,554</b>
<b>Infrastructure</b>														
Water	454,719,627	3,539,029	(176,821)	63,291,477	-	-	541,374,232	(105,878,792)	92,345	-	116,410,719	-	(122,197,168)	399,177,965
Sewer	366,000,655	-	-	17,433,810	-	-	403,434,465	(107,86,739)	-	-	(17,657,897)	-	(124,844,538)	278,610,029
Roads	381,239,617	1,027,362	-	18,371,098	-	-	399,638,077	(144,345,446)	-	-	(13,737,622)	-	(160,163,269)	238,595,119
Electricity	154,195,285	93,435	-	8,292,903	-	-	162,581,623	(52,30,959)	-	-	(6,050,057)	-	(58,180,716)	104,400,837
Railways	48,756,739	-	-	-	-	-	48,756,739	(21,969,217)	-	-	(2,708,653)	-	(24,377,879)	24,377,869
Work in progress	78,694,891	65,906,525	-	(119,108,832)	-	-	25,492,584	-	-	-	-	(741,650)	(741,650)	22,750,934
	<b>1,691,666,034</b>	<b>70,567,251</b>	<b>(176,821)</b>	<b>(12,729,304)</b>	<b>-</b>	<b>-</b>	<b>1,658,327,160</b>	<b>(431,210,863)</b>	<b>92,345</b>	<b>-</b>	<b>(68,595,149)</b>	<b>(741,650)</b>	<b>(490,446,307)</b>	<b>1,067,881,553</b>
<b>Community Assets</b>														
Land	138,671,893	-	-	-	-	-	138,671,893	-	-	-	-	-	-	138,671,893
Buildings	248,586,318	1,676,305	-	13,729,304	-	-	263,991,527	(70,243,940)	-	-	(9,878,280)	-	(79,922,220)	184,069,707
	<b>387,258,181</b>	<b>1,676,305</b>	<b>-</b>	<b>13,729,304</b>	<b>-</b>	<b>-</b>	<b>402,663,790</b>	<b>(70,243,940)</b>	<b>-</b>	<b>-</b>	<b>(9,878,280)</b>	<b>-</b>	<b>(79,922,220)</b>	<b>322,741,570</b>

**Dihlabeng Local Municipality**  
**Dihlabeng Local Municipality**  
**Appendix B**

June 2018

**Analysis of property, plant and equipment as at 30 June 2018**  
**Cost/Revaluation**

**Accumulated depreciation**

	Opening Balance		Additions		Disposals		Transfers		Revaluations		Other changes, movements		Closing Balance		Opening Balance		Disposals		Transfers		Depreciation		Impairment loss		Closing Balance		Carrying value	
	Rand		Rand		Rand		Rand		Rand		Rand		Rand		Rand		Rand		Rand		Rand		Rand		Rand		Rand	
<b>Other assets</b>	<b>12 207 571</b>		<b>347 165</b>		<b>(277 500)</b>		-		-		-		<b>12 277 227</b>		<b>(6 572 290)</b>		<b>250 637</b>		-		<b>(557 440)</b>		-		<b>(6 919 043)</b>		<b>3 308 194</b>	
Motor vehicles	9 289 297		1 903 577		(386 731)		-		-		-		11 306 043		(7 448 894)		284 553		-		(1 082 101)		-		(6 246 442)		3 059 231	
Office equipment	1 257 845		-		-		-		-		-		1 257 845		(560 184)		-		-		(73 206)		-		(1 033 389)		224 556	
Bins and containers	285 172		-		-		-		-		-		285 172		(180 625)		-		-		(16 310)		-		(187 035)		88 137	
Emergency equipment	4 300 863		51 472		(7 750)		-		-		-		4 344 615		(2 598 867)		5 475		-		(366 700)		-		(3 300 176)		954 503	
Furniture & fittings	6 139		-		-		-		-		-		6 139		(6 137)		-		-		-		-	-	(6 137)		2	
Security equipment	15 080 209		403 081		(18 754)		-		-		-		15 465 036		(10 461 555)		16 819		-		(745 662)		-		(11 190 818)		4 274 218	
Plant and equipment	<b>42 919 095</b>		<b>2 705 295</b>		<b>(684 750)</b>		-		-		-		<b>44 940 541</b>		<b>(30 629 148)</b>		<b>557 534</b>		-		<b>(2 811 428)</b>		-		<b>(32 983 040)</b>		<b>11 957 501</b>	



**Dihlabeng Local Municipality**  
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June 2018

**Analysis of property, plant and equipment as at 30 June 2018**  
**Cost/Revaluation**  
**Accumulated depreciation**

	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
<b>Total property plant and equipment</b>														
Land and buildings	462,192,433	-	-	-	-	-	462,192,433	(5,762,481)	-	-	(757,398)	-	(6,519,879)	455,672,554
Infrastructure	1,501,666,034	70,587,251	(175,821)	(13,729,304)	-	-	1,558,327,160	(431,210,853)	92,345	-	(58,585,149)	(741,650)	(490,445,307)	1,057,981,853
Community Assets	387,258,181	1,676,305	-	13,729,304	-	-	402,663,790	(70,243,940)	-	-	(9,678,280)	-	(79,922,220)	322,741,570
Other assets	42,919,996	2,705,255	(684,750)	-	-	-	44,940,541	(30,629,146)	557,534	-	(2,911,428)	-	(32,883,040)	11,957,501
	<b>2,394,036,644</b>	<b>74,945,851</b>	<b>(861,571)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,468,123,924</b>	<b>(537,846,420)</b>	<b>649,879</b>	<b>-</b>	<b>(71,932,255)</b>	<b>(741,650)</b>	<b>(609,870,446)</b>	<b>1,858,253,478</b>
<b>Agricultural/Biological assets</b>														
Game stock	3,726,075	-	-	-	(72,750)	-	3,653,325	-	-	-	-	-	-	3,653,325
	<b>3,726,075</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(72,750)</b>	<b>-</b>	<b>3,653,325</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,653,325</b>
<b>Intangible assets</b>														
Computers - software & programming	3,002,432	1,137,171	-	-	-	-	4,139,603	(1,137,965)	-	-	(647,632)	-	(1,785,587)	2,354,016
	<b>3,002,432</b>	<b>1,137,171</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,139,603</b>	<b>(1,137,965)</b>	<b>-</b>	<b>-</b>	<b>(647,632)</b>	<b>-</b>	<b>(1,785,587)</b>	<b>2,354,016</b>
<b>Investment properties</b>														
Investment property	51,996,400	-	-	-	-	-	51,996,400	-	-	-	-	-	-	51,996,400
	<b>51,996,400</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>51,996,400</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>51,996,400</b>
<b>Total</b>														
Land and buildings	462,192,433	-	-	-	-	-	462,192,433	(5,762,481)	-	-	(757,398)	-	(6,519,879)	455,672,554
Infrastructure	1,501,666,034	70,587,251	(175,821)	(13,729,304)	-	-	1,558,327,160	(431,210,853)	92,345	-	(58,585,149)	(741,650)	(490,445,307)	1,057,981,853
Community Assets	387,258,181	1,676,305	-	13,729,304	-	-	402,663,790	(70,243,940)	-	-	(9,678,280)	-	(79,922,220)	322,741,570
Other assets	42,919,996	2,705,255	(684,750)	-	-	-	44,940,541	(30,629,146)	557,534	-	(2,911,428)	-	(32,883,040)	11,957,501
Agricultural/Biological assets	3,726,075	-	-	-	(72,750)	-	3,653,325	-	-	-	-	-	-	3,653,325
Intangible assets	3,002,432	1,137,171	-	-	-	-	4,139,603	(1,137,965)	-	-	(647,632)	-	(1,785,587)	2,354,016
Investment properties	51,996,400	-	-	-	-	-	51,996,400	-	-	-	-	-	-	51,996,400
	<b>2,452,761,551</b>	<b>76,086,022</b>	<b>(861,571)</b>	<b>-</b>	<b>(72,750)</b>	<b>-</b>	<b>2,527,913,252</b>	<b>(538,994,375)</b>	<b>649,879</b>	<b>-</b>	<b>(72,579,887)</b>	<b>(741,650)</b>	<b>(511,655,033)</b>	<b>1,916,257,219</b>

**Dihlabeng Local Municipality**  
**Dihlabeng Local Municipality**  
**Appendix B**

**Analysis of property, plant and equipment as at 30 June 2017**  
**Cost/Revaluation**

Cost/Revaluation										Accumulated depreciation									
Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand						
439,843,410	-	-	-	-	-	439,843,410	-	-	-	-	-	-	439,843,410						
4,605,363	-	-	-	-	-	4,605,363	-	-	-	-	-	-	4,605,363						
17,643,660	-	-	-	-	-	17,643,660	(5,019,999)	-	-	(742,512)	-	(5,762,481)	11,891,179						
462,192,433	-	-	-	-	-	462,192,433	(5,019,999)	-	-	(742,512)	-	(5,762,481)	456,429,952						
422,527,865	14,158,415	-	17,963,637	-	-	454,719,647	(90,631,706)	-	-	(15,247,006)	-	(105,878,792)	348,840,855						
386,030,865	-	-	-	-	-	386,030,865	(92,317,890)	-	-	(14,868,849)	-	(107,196,735)	278,644,116						
375,389,766	1,489,480	-	4,420,371	-	-	381,299,617	(128,928,860)	-	-	(15,418,596)	-	(144,345,446)	236,954,171						
154,155,285	-	-	-	-	-	154,155,285	(46,156,094)	-	-	(5,874,965)	-	(52,130,659)	102,054,526						
48,755,739	-	-	-	-	-	48,755,739	(18,560,595)	-	-	(2,708,652)	-	(21,689,217)	27,086,522						
48,706,176	55,889,174	-	(27,940,459)	-	-	76,654,891	-	-	-	-	-	-	76,654,891						
1,435,605,416	71,587,069	-	(6,526,451)	-	-	1,501,665,034	(375,995,105)	-	-	(54,215,748)	-	(431,210,853)	1,070,455,181						
138,671,863	-	-	-	-	-	138,671,863	-	-	-	-	-	-	138,671,863						
250,269,135	322,183	(7,590,946)	5,575,945	-	-	249,586,319	(60,706,993)	-	-	(9,538,947)	-	(70,243,940)	178,342,378						
388,940,998	322,183	(7,590,946)	5,575,945	-	-	387,258,181	(60,706,993)	-	-	(9,538,947)	-	(70,243,940)	317,014,241						

**Dihlabeng Local Municipality**  
**Dihlabeng Local Municipality**  
**Appendix B**

June 2018

**Analysis of property, plant and equipment as at 30 June 2017**  
**Cost/Revaluation**

**Accumulated depreciation**

	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying - value Rand
<b>Other assets:</b>														
Motor vehicles	12 924 352	-	(845 356)	-	-	131 565	12 207 571	(8 628 776)	705 970	-	(649 484)	-	(8 572 280)	3 635 291
Office equipment	10 190 278	1 141 786	(1 548 257)	-	-	-	9 783 797	(6 035 384)	1 505 489	-	(921 998)	-	(7 446 893)	2 334 904
Bins and containers	1 257 505	-	-	-	-	140	1 257 645	(693 814)	-	-	(75 346)	(24)	(560 184)	297 451
Emergency equipment	340 347	(57 175)	-	-	-	-	283 172	(220 124)	57 105	-	(17 806)	-	(180 825)	102 347
Security equipment	6 135	-	-	-	-	-	6 139	(5 652)	-	-	(275)	-	(5 137)	2
Plant and equipment	16 134 146	591 586	(1 635 025)	-	-	-	15 090 709	(10 525 481)	1 509 295	-	(1 145 755)	-	(10 491 935)	4 618 754
Furniture and fixtures	4 455 251	320 735	(91 565)	-	-	(383 472)	4 300 953	(2 930 620)	89 151	-	(491 171)	333 979	(2 596 851)	1 302 102
	<b>45 305 040</b>	<b>1 986 936</b>	<b>(4 123 213)</b>	<b>-</b>	<b>-</b>	<b>(251 767)</b>	<b>42 919 996</b>	<b>(31 630 261)</b>	<b>3 976 010</b>	<b>-</b>	<b>(3 302 849)</b>	<b>333 955</b>	<b>(30 629 145)</b>	<b>12 290 851</b>

**Dihlabeng Local Municipality**  
**Dihlabeng Local Municipality**  
**Appendix B**  
 June 2019

**Analysis of property, plant and equipment as at 30 June 2017**  
**Cost/Revaluation**  
**Accumulated depreciation**

	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
<b>Total property, plant and equipment</b>														
Land and buildings	462,192,433	-	-	-	-	-	462,192,433	(5,019,969)	-	-	(742,512)	-	(5,762,481)	456,429,952
Infrastructure	1,435,605,416	71,587,089	-	(5,526,451)	-	-	1,501,666,034	(375,995,105)	-	-	(54,215,749)	-	(431,210,853)	1,070,455,181
Community Assets	388,940,998	322,183	(7,580,945)	5,575,945	-	-	387,258,181	(60,705,993)	-	-	(9,535,947)	-	(70,243,940)	317,014,241
Other assets	45,308,040	1,986,936	(4,123,213)	-	-	(251,767)	42,919,996	(31,630,261)	3,870,010	-	(3,302,849)	333,955	(30,629,145)	12,290,851
	<b>2,332,046,887</b>	<b>73,896,188</b>	<b>(11,704,158)</b>	<b>49,494</b>	<b>-</b>	<b>(251,767)</b>	<b>2,394,036,644</b>	<b>(474,352,328)</b>	<b>3,870,010</b>	<b>-</b>	<b>(67,798,056)</b>	<b>333,955</b>	<b>(537,846,415)</b>	<b>1,856,190,225</b>
<b>Agricultural/Biological assets</b>														
Game stock	2,795,450	-	-	-	1,003,375	-	3,798,825	-	-	-	-	-	-	3,798,825
	<b>2,795,450</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,003,375</b>	<b>-</b>	<b>3,798,825</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,798,825</b>
<b>Intangible assets</b>														
Computers - software & programming	1,066,113	1,905,319	-	-	-	-	3,002,432	(1,026,355)	-	-	(111,600)	-	(1,137,955)	1,864,477
	<b>1,066,113</b>	<b>1,905,319</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,002,432</b>	<b>(1,026,355)</b>	<b>-</b>	<b>-</b>	<b>(111,600)</b>	<b>-</b>	<b>(1,137,955)</b>	<b>1,864,477</b>
<b>Investment properties</b>														
Investment property	51,996,400	-	-	-	-	-	51,996,400	-	-	-	-	-	-	51,996,400
	<b>51,996,400</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>51,996,400</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>51,996,400</b>
<b>Total</b>														
Land and buildings	462,192,433	-	-	-	-	-	462,192,433	(5,019,969)	-	-	(742,512)	-	(5,762,481)	456,429,952
Infrastructure	1,435,605,416	71,587,089	-	(5,526,451)	-	-	1,501,666,034	(375,995,105)	-	-	(54,215,749)	-	(431,210,853)	1,070,455,181
Community Assets	388,940,998	322,183	(7,580,945)	5,575,945	-	-	387,258,181	(60,705,993)	-	-	(9,535,947)	-	(70,243,940)	317,014,241
Other assets	45,308,040	1,986,936	(4,123,213)	-	-	(251,767)	42,919,996	(31,630,261)	3,870,010	-	(3,302,849)	333,955	(30,629,145)	12,290,851
Agricultural/Biological assets	2,795,450	-	-	-	1,003,375	-	3,798,825	-	-	-	-	-	-	3,798,825
Intangible assets	1,066,113	1,905,319	-	-	-	-	3,002,432	(1,026,355)	-	-	(111,600)	-	(1,137,955)	1,864,477
Investment properties	51,996,400	-	-	-	-	-	51,996,400	-	-	-	-	-	-	51,996,400
	<b>2,387,934,850</b>	<b>75,802,507</b>	<b>(11,704,158)</b>	<b>49,494</b>	<b>1,003,375</b>	<b>(251,767)</b>	<b>2,452,834,301</b>	<b>(475,378,683)</b>	<b>3,870,010</b>	<b>-</b>	<b>(67,909,646)</b>	<b>333,955</b>	<b>(538,984,374)</b>	<b>1,915,849,027</b>